



To: Tran Thanh Ha, Head of Insurance Market Development Authority
Vietnam Insurance Supervisory Authority

Date: 13 May 2020

Subject: GFIA follow-up on credit for reinsurance

Dear Ms Ha,

I hope that you, your colleagues and your families are healthy and safe at this time of the COVID-19 pandemic.

I am writing on behalf of the Global Federation of Insurance Associations (GFIA), which represents 41 regional and national insurance associations and accounts for approximately 89% of global premiums. I respectfully offer our input and support with respect to the government of Vietnam's efforts to update its insurance laws and regulations.

As we discussed during the IAIS Annual Conference in Abu Dhabi, the US insurance industry has strongly supported the proposed US Treasury Department's (Treasury) technical assistance programme on insurance for Vietnam. However, the Treasury recently informed us that they are suspending any new programmes indefinitely due to COVID-19. Nevertheless, the global insurance industry still wants to offer its support as you revise your insurance laws and regulations. Moreover, even with the temporary suspension of the Treasury's programme, other organisations such as the Asian Development Bank (ADB) and the Organisation for Economic Cooperation and Development (OECD) have ongoing workstreams on (re)insurance and may be able to provide support.

GFIA has several suggestions for your consideration, the first being the establishment of a credit for reinsurance law or regulation that would allow a ceding insurer's reinsurance recoverables to receive reserve credit, i.e. to be recognised on the insurer's statutory financial statements as an asset or a reduction of liabilities. GFIA is of the view that the implementation of a credit for reinsurance regime would bring Vietnam in line with worldwide best practices and would contribute to your goals of creating new opportunities for insurers and strengthening their sound finances and management.

A conceptual outline of a credit for reinsurance can be found in the annex to this letter and GFIA would be pleased to support further work on this. In addition, attached is a spreadsheet providing examples of regulatory practices on credit for reinsurance around the world. As you will see, all jurisdictions with developed insurance industries allow credit for reinsurance. GFIA would be glad to discuss this topic further at your convenience, should you be available for a videoconference.

GFIA and its members would also be glad to offer similar input on other insurance regulatory topics. If you could advise whether your schedule for adopting revisions to your insurance regime has changed due to COVID-19, we would be glad to provide input in a timely and appropriate manner.



GFIA members represent all of the foreign invested companies in Vietnam and collectively have technical knowledge of regulation in more than one hundred markets. As you revise your insurance regulatory regime, GFIA stands ready to work with you and provide technical assistance.

Please let me know if GFIA can be of service.

Kind regards,

Brad Smith

Chair of the GFIA Trade working group (BradSmith@acli.com)

About GFIA

Through its 40 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 64 countries. These companies account for around 89% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.



Annex I – Credit for reinsurance

“Credit for reinsurance” means that an insurer making accounting entries does not have to show liabilities assumed by a recognised reinsurer or can show the reinsurer’s obligation to pay under the reinsurance agreement as a debt. This allows the insurance company to treat money it is owed by reinsurer for losses as assets. Credit in the insurer’s financial statements is allowed by the insurance laws and regulations of nearly all countries. The attached spreadsheet lists the regulatory position regarding credit for reinsurance of major jurisdictions throughout the world. Simply stated most of the world permits an insurer to take credit for its reinsurance either as a reduction in liabilities or as an asset. This is consistent with a policy designed to encourage insurers to reinsure risks to obtain the benefits of reinsurance which are realised by both the insurer and to the market.

By entering into a reinsurance contract an insurer agrees to transfer some of its risk associated with the policies that it has issued, or will issue, to the reinsurer. The reinsurer, in turn, will indemnify the insurer for the agreed upon portion of claims on the policies that have been reinsured. In return for this commitment the insurer pays a portion of the premium that it earns on the insurance policy to the reinsurer. The reinsurer may also reimburse the insurer for a portion of the insurer’s expenses, including commissions, that it incurs in writing the reinsured policies.

Shifting costs and risks to the reinsurer allows an insurer to issue more policies because the insurer’s overall risk profile is reduced because of the reinsurance. The insurance risk is, in effect, exchanged for a credit risk to the reinsurer. This is simply the risk that the reinsurer will become insolvent and as a result will become unable to reimburse the insurer for its share of claims. Insurance companies take the risk of reinsurer insolvency into account through the concept of reinsurance credits. Most insurers establish internal controls to make sure that their reinsurers have sufficient capital to remain solvent and manage that the credit risk through such controls. Review and approval of reinsurers by regulators is also relied upon by insurers as a means of protecting against reinsurer insolvency.

Regulators and reinsurance laws establish rules regarding the taking of reserve credit by insurers to not only regulate credit for reinsurance, but also to encourage beneficial reinsurance to help promote healthy, competitive insurance markets. The advantages of reinsurance are well established. Reinsurance enables the increase in insurance business in a country, stabilises premium rates, protects insurance guarantee funds, reduces profit fluctuations of insurers, spreads risks, encourages and helps the development and launch of new insurance products, allows a company to take on more policyholders, and helps with insurer expansion. Reinsurers also have significant amounts of data and information which allows the development of mortality, morbidity and loss models. They can provide product development, underwriting and claims expertise to the insurers they serve. These services can be especially valuable to younger and smaller or local companies who may not have the internal resources to compete in a market dominated by global or foreign players.

With all of these benefits provided by reinsurance and reinsurers, it seems productive to encourage reinsurance by allowing insurers to take credit for reinsurance. Indeed, as the exhibit demonstrates, the normal approach to reinsurance in a market is to encourage reinsurance relationships by allowing insurers to take credit for reinsurance. The credit exposure to the reinsurers is managed by the insurer’s internal controls and, in many jurisdictions, the review and approval of reinsurers. A few, but not many, jurisdictions may require some form of security when the



reinsurer is not authorised or approved in the insurer's home jurisdiction. For the most part, however, the management of credit exposure to the reinsurer is managed by the insurer's internal controls.

Overall, reinsurance is of significant help to a regulator's objectives of assuring solvent insurers and healthy markets. Reinsurance serves to promote both of these fundamental objectives of insurance regulation. Ultimately, more people get a given quantity of insurance at a favourable price, and in some circumstances perhaps only get insurance, because of the existence of reinsurance in a market. Reinsurance is also fundamental to the promotion of wide availability of insurance products in a market at competitive prices. For all of the aforementioned reasons regulators around the world have allowed insurers to take credit for reinsurance in their financial statements.