

The Brazilian state reinsurance monopoly – one of the few remaining reinsurance monopolies in the world – is expected to come to an end. In the first days of 2007, the president of Brazil signed a bill, first drafted in 1996 and amended periodically over the past ten years, to open the reinsurance market. New regulations outlined in the law are not without restrictions, and many details must still be worked out before a new system emerges. Although this process may take considerable time, the opening of the reinsurance market in Brazil appears imminent.

The law creates a new regulatory body that will supervise insurance and reinsurance activity, taking this responsibility away from the *IRB Brasil Resseguros SA* (IRB), which for the past decade has been the only local reinsurer in Brazil.

### New Regulators, New Rules

Three categories of reinsurers will be recognized by the new regulatory body.

- **Local reinsurer** – A reinsurer domiciled in Brazil, organized as a stock company to exclusively carry reinsurance and retrocession
- **Admitted reinsurer** – A reinsurer domiciled in a foreign country, with representative offices in Brazil
- **Occasional reinsurer** – A reinsurer domiciled in a foreign country with no representative offices in Brazil

Local reinsurers, including the IRB, will have preference over companies in the two other categories. All insurers will have to reinsure at least 60 percent of their reinsurable business with local reinsurers. This limit will fall to 40 percent three years after the law goes into

effect. The limit will be then reviewed three years after that date.

The law originally passed by the Brazilian House and Senate included rules about the preferential treatment to be accorded local reinsurers and to a lesser extent admitted reinsurers, but much of this was struck from the law by President Luiz Inácio Lula da Silva for being too detailed.

The new regulatory body will apply strict rules regarding the acceptance of foreign-domiciled reinsurers. Occasional reinsurers must not be located in tax havens, in countries where the income tax is below 20 percent or in countries that protect the names of shareholders or company owners.

The law also includes a provision that confirms that only local reinsurers will be allowed to reinsure endowment insurances and supplementary pension plans.



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## Work to Be Done

A series of issues still need further discussion.

- Limits and conditions for retrocession
- Advantages accorded admitted reinsurers over occasional reinsurers
- Conditions under which local reinsurers will have to follow terms of admitted and occasional reinsurers
- Procedures for registration of reinsurers
- Operational rules for reinsurers and reinsurance brokers

## The Impact

Multinationals should expect to benefit from the new system. Following approval of new regulations and operational guidelines, we expect to see a greater portion of the risks in Brazil being reinsured by global programs, which may allow a reduction in premium rates. A clear picture will only emerge, however, once full regulations are established.

Willis will continue to monitor the news on the Brazilian reinsurance market. For a historical perspective on these changes please see past *Alerts* issued by the Willis International Practice on changes in IRB guidelines. These are available in the International publication library on [willis.com](http://www.willis.com), <http://www.willis.com/Services/International/Publications.aspx>.

Please contact us for an English translation of the new law.

