Insurance/ Reinsurance

19 February 2015

INSURANCE BULLETIN

Welcome to HFW's Insurance Bulletin, which is a summary of the key insurance and reinsurance regulatory announcements, market developments, court cases and legislative changes of the week.

In this week's Bulletin:

Should you require any further information or assistance on any of the issues dealt with here, please do not hesitate to contact any of the contributors to this Bulletin, or your usual contact at HFW.

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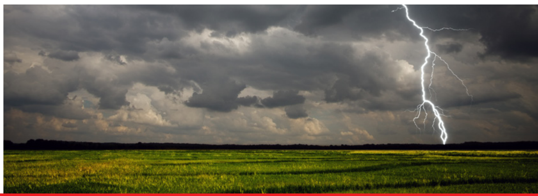

1. Regulation and legislation

1.1. UK: Insurance Bill receives Royal Assent as the Insurance Act 2015

On 12 February 2015, the Insurance Bill received Royal Assent. The Insurance Act 2015 is now an Act of Parliament and will enter into force in August 2016.

A copy of the Act can be found here: http://www.legislation.gov.uk/ukpga/2015/4/pdfs/ukpga_20150004_en.pdf.

HFW recently published a Briefing on the amendments that were made to the Bill (as it was then) during its passage through Parliament. A copy of this Briefing can be found here: http://www.hfw.com/Insurance-Bill-makes-progress-through-UK-legislative-process-February-2015.

HFW also published a detailed Briefing on the Bill in July last year, which can be found here: http://www.hfw.com/The-Insurance-Contracts-Bill-July-2014.

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1.2. Cayman Islands: Cayman Islands insurance amendments – insurance industry to benefit

On 16 January 2015, the Cayman Islands Monetary Authority (CIMA) amended its insurance regulations for the purposes of enhancing captive flexibility. The new regulations are designed to allow a segregated portfolio company (an SPC) to register subsidiary companies as portfolio insurance companies (PICs) with CIMA.

The benefits of these changes to the insurance industry are significant. The Insurance Managers Association of Cayman (IMAC) flag a number of advantages which include that a PIC:

- Can now contract with other PICs within the SPC which facilitates reinsurance, quota sharing and risk pooling.
- Can have a different board of directors to that of the controlling SPC providing for greater governance flexibility.
- Can merge with another captive.

In addition, a foreign captive can redomicile to Cayman as a PIC where it may not be of a sufficient size to operate as a standalone captive.

According to IMAC, the Cayman Islands is the world's second largest captive domicile with over 760 companies under CIMA's supervision. This number seems likely to increase as the new insurance regulations continue to make the Cayman Islands a more attractive jurisdiction to engage in insurance business.

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2. Market developments

2.1. Russia: Western reinsurers impacted by sanctions against Russia

It has been warned that up to £200 million in reinsurance business may be lost by Western reinsurers if further sanctions against Russia limit the international trade of its market leader, Sogaz. If Sogaz was restrained from continuing its present practice of placing reinsurance internationally, this would impact Lloyd's, Scor, Swiss Re, Hanover Re and Munich Re, amongst others.

Such news must be appreciated in the context of existing sanctions, diminishing oil prices and potential recession in Russia, all of which pose a significant threat to Russia's insurance industry. Major reinsurers across the globe are located in jurisdictions which have imposed sanctions against Russia.

Sogaz holds an approximate 10% market share in Russia and purchases reinsurance from Lloyd's and other Western market companies. Out of all of Russia's insurers, Sogaz might be the worst affected by the sanctions – we note that two of its shareholders currently feature on the list of sanctioned companies.

Following targeted US sanctions last year, the former majority-owner, Bank Rossiya was reduced to a minority shareholder. In addition, 16% of shares previously owned by Abros were sold to Gazprom, the effect of which is that less than 50% of Sogaz is owned by sanctioned companies. It remains a possibility that Sogaz could fall within the purview of further sanctions yet to be imposed, leading to millions in

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lost reinsurance revenue for Western reinsurers.

An analyst at Equity Development, John Borgas, has stated, *"Reinsurance in the Western market of Russian mega-risks is currently essential since the sum at risk for a few of them exceeds the total capital and reserves of the top 10 Russian-owned insurers"*.

Borgas highlights that Western reinsurance is essential for risks such as Russian aviation, spacecraft, nuclear power and major oilfields. Western reinsurers made a profit of 11 billion rouble from Sogaz in 2013. If this business were lost, this might result in approximately a £30 million drop in profits of each of the major reinsurers that write the risks.

However, if an alternative Russian insurer, which was not subject to sanctions, were to write the primary risks rather than Sogaz, this business could be retained. It may be the suggestion of sanctioning Sogaz that has prompted the discussions recently initiated by the Central Bank of Russia about a state-owned reinsurer.

It seems likely that any further hostile international action from the Russian government will increase the prospect of additional sanctions.

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3. HFW publications

3.1. International: OECD Foreign Bribery Report: bribery of foreign public officials

HFW has published a Briefing analysing the findings of the OECD's report on the crime of bribery of foreign public officials. The report looked at transnational corruption since the OECD Anti-Bribery Convention entered into force and reviewed enforcement actions which have been brought against individuals and entities.

A copy of the Briefing can be found here: http://www.hfw.com/OECD-Foreign-Bribery-Report-February-2015 .

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