

Regulatory approach to catastrophe risk management in insurance companies:

Current Challenges and Opportunities

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DEVELOPING CATASTROPHE AND WEATHER RISK MARKETS IN
SOUTHEASTERN EUROPE: FROM CONCEPT TO REALITY

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AGENCY

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Solvency regulation

- ❖ **Rule-based** approach, Solvency I regime
- ❖ Four pillars
 - Liabilities
 - Assets
 - Solvency margin and
 - Minimum Guarantee Fund
- ❖ Two types of regulation
 - Financial regulation
(solvency requirements, technical provisions, reinsurance)
 - Market regulation
(rates, policy forms/terms, underwriting practices, marketing and distribution, claims adjustments)



Solvency regulation

- ❖ The capital should be higher than
 - The minimum guarantee fund
 - Required solvency margin
 - Premium method
 - Claims method

The calculation of the capital doesn't include catastrophic risks explicitly

- ❖ Reinsurance program
 - Table of maximum coverage
 - Reinsurance contracts
- ❖ Competitive tariff rating, related to property insurance
- ❖ File – and – use system



Catastrophe risk regulation

- ❖ Main legal acts
 - Insurance Supervision Law
 - Law on compulsory insurance in traffic
 - Company Law (provisions that regulate the trade companies in general)
 - Contract Law (provisions that regulate the contracts in general)
- ❖ Since the establishment of ISA, 23 by-laws have been adopted

However...

- ❖ Lack of regulation related to catastrophic risk
- ❖ Lack of adequate control related to catastrophic risk, since there are no minimum standards
- ❖ Lack of minimum standards for approving the tariffs and conditions, which affects the adequateness of premiums
- ❖ Lack of minimum standards for reinsurance regulation
- ❖ No specific reporting required on cat risk accumulation.



Catastrophe risk environment

Other drawbacks

- ❖ Relatively small countries with limited risk diversification possibilities and high risk accumulation in main cities
- ❖ Low public awareness, culture, education
(state is considered as the only catastrophe risk absorbing mean)
- ❖ Low level of insurance penetration and lack of standalone catastrophe products
- ❖ Poor catastrophe insurance risk management, including lack of proper modeling
- ❖ Lack of available / affordable risk transfer alternatives;
 - Low business volumes to attract reinsurers or any other risk transfer means;
 - Gap between local insurers and international reinsurers premium rates;



Measures and challenges

In progress....

- ❖ Implementing new software for financial and statistical reporting
- ❖ Strengthening the reporting standards
 - Additional template in the Rulebook for Insurance statistical standards, intended to present the main parameters related to main types of catastrophic risks
- ❖ New rulebook on calculating the retention level and maximum probable loss
 - reinsurers and quality of reinsurance
 - reinsurance program
 - provisions related to catastrophic risks
 - reporting to ISA
- ❖ New rulebook on the manner, reporting, processing, reservation and liquidation of claims
- ❖ Education and increasing the financial literacy
- ❖ Establishing stakeholder group



Measures and challenges

Further steps....

- ❖ Implementing risk-based supervision through the technical assistance of the World Bank
- ❖ Establishment of necessary regulation related to the tariffs and conditions (including catastrophic risks)
- ❖ Further increase the awareness and culture for buying catastrophic coverage
- ❖ Strengthening the international cooperation among Europa Re participants by signing MoU
- ❖ Capacity building



Thank you

