

ICIEC Staff Retreat and 30th Anniversary Celebration

20 - 21 December 2023

FUNCTION: REINSURANCE

Outline

1 | MISSION AND VISION OF REINSURANCE

2 | REINSURANCE FUNCTION IN ICIEC

3 | ICIEC EXPERIENCE IN REINSURANCE PLACEMENTS

4 | CRITERIA OF SELECTION OF REINSURANCE PARTNERS

5 | CHALLENGES AND RECOMMENDATIONS

6 | REINSURANCE STRATEGIC PLANS 2024 - 2025

1 | Mission and Vision of Reinsurance Team in ICIEC



Vision: For ICIEC to be recognized in the reinsurers' and reinsurance brokers' markets as a competent and trusted partner in all Member Countries.



Mission: To contribute and facilitate the growth of ICIEC by structuring suitable reinsurance programs (Treaty and Facultative) that are able to inject sufficient capacity with maximum benefits to the Corporation, including increasing reinsurance commission (ceding commission).

2 | The Reinsurance Function in ICIEC

The Reinsurance function in ICIEC is under the purview of CEO Office, working closely with all other functions in the Organization. The main purpose of this function is to establish guidelines of outward and inward reinsurance business, to manage reinsurance operations by developing and maintaining appropriate reinsurance programs (Treaty and Facultative) with a minimum “A-” rated Reinsurance Companies, which provide supplementary insurance capacity with maximum benefits to the Corporation.

Although the existing outward reinsurance programs have by and large met the capacity requirements of the Corporation, continuous efforts are being explored to enhance the programs and reach out to the market. This is the upmost importance as the Corporation grow and new products are being introduced to the market.

3 | ICIEC's Experience in Reinsurance Placements



- Currently, ICIEC has a Short-Term Outward Quota Share Reinsurance Treaty signed with Munich Re, Hannover Re, XL Catlin Switzerland and Atradius Re effective from 1 Jan 2023 till 31 Dec 2023 to cover export and domestic credit insurance policies that are short term (not exceeding 730 days).
- ICIEC also has a Treaty program for Medium-Term (MT) and Foreign Investment Insurance (FII) policies with Munich Re, Swiss Re, Hannover Re, Partner Re and AXA XL Catlin Re with effect of 1 Jan 2023 – 31 Dec 2023.
- Apart from the Outward Quota Share Treaties for Short-Term, Medium-Term and Investment Insurance policies, signed with all the various reinsurers mentioned above, ICIEC has other specialized inward Quota Share Treaties with some other ECAs (Turk Eximbank, CAGEX, Cotunace, ASEI (Indonesia), KazakhExport and JLGC). Few other Master Facultative Agreements were also signed with K-Sure, Saudi Eximbank, Credit Oman, Etihad Credit Insurance, United Insurance Company and Nexi. This year, we are in the midst of finalizing the MFA with few other insurance entities.
- On the same note, ICIEC actively seeks Outward Facultative Reinsurance arrangements in the reinsurance market whenever it is required.

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There are several factors attributable to the rapid surge in reinsurance ceded amount from 1425H till to-date including:

- The demand for ICIEC's products and services have increased many folds in the past few years. ICIEC is now more visible and gaining recognition from global potential insurance buyers as the key Insurer in Trade Credit & Political Risk in the region. As a result of the increased demand, ICIEC has increased its business volumes and thus more reinsurance support is needed.
- Over the years, ICIEC has fostered good relationships with all its Reinsurers. Our underwriting methodologies have been proven to be prudent and recognized by the reinsurers from the healthy claims ratio that was reported. This has helped to foster greater confidence of the reinsurers in ICIEC's underwriting operations and enable ICIEC to seek out and mobilize more reinsurance support from the reinsurers when needed.
- Increased in reinsurers ceded percentage in the ST Quota Share Treaty. ICIEC first started its Quota Share Treaty in 2004 with 25% ceded percentage, grew to 30% in 2005 and 70% since 2022 till now. For the MT/FII Treaty, ICIEC is ceding out 70% to the treaty book. This has no doubt helped ICIEC to mobilize more capacity from the market.
- The introduction of Domestic buyer insurance and DCIP insurance, the provision of higher credit limits covered by the Quota Share Treaty, the acceptance of more credit information agencies as acceptable credit opinion providers in the Quota Share Treaty, have all helped to increase the reinsurance capacity.

Continuation



- The inclusion of other Quota Share Treaty programs with Coface and Credimundi/Ducroire. Through these Treaty programs, ICIEC is ceding out 80% and 90% to Coface and Credimundi/Ducroire respectively.
- Last but not least, the increased involvement of facultative reinsurers in some of ICIEC's MT and FII policies, which was normally ceded up to 80% or higher of the insured amount. This had helped to provide the much-needed adequate capacity for ICIEC to insure the transactions.
- Since inception, ICIEC has mobilized *USD 49 billion of reinsurance capacity from the private market, representing 54% of cumulative business insured.
- In 2022, ICIEC has mobilized *USD 5.7 billion of capacity from the reinsurance market, representing 65% of ICIEC business insured.

4 | Criteria Of Selection Of Reinsurance Operators

- **Credit rating** - Selected reinsurance operators must have a minimum financial strength rating of Standard & Poor's (S&P) A-. If the S&P rating is not available, the rating from an equivalent rating agency, i.e. A.M. Best or Fitch's with a minimum rating of 'A-' or Moody's with a minimum rating of A3 may be used. The only exception is in regard to required reinsurance cessions made to the local national reinsurance operators, if any.
- **Similarity of philosophy** - Reinsurance operators should share the Insurance Operator's philosophy on the importance of long-term partnerships and mutual respect. Underwriting and claims processing philosophies should also be aligned so as not to impede the Insurance Operator's ability to underwrite business and assess claim.
- **Trustworthiness** – In addition to the reinsurance operators' past and present record/behaviour in the market and their license to underwrite or accept reinsurance business, the staff of the selected reinsurance operators must be known to be competent and trustworthy. Also, the reinsurance operator must have a reputation for fulfilling promises.
- **New Product Concept** - Occasionally, a reinsurance operator will introduce new product concepts to the Insurance Operator. If this results in a new product, the Management will grant the reinsurance operator some of the reinsurance business of this product.

- **Value-added services** - In certain lines of business it is important that the reinsurance operator be able to offer a range of services which include the following:
 - Underwriting of specialty risks
 - Assistance in the development of new products and distribution channels.
 - Advice on product design features and contract wordings
 - Pricing of insurance products
 - Review of risk management abilities, processes and workflows
 - Expert electronic underwriting systems
 - Research on product developments in other markets

- In addition, transfer of practical knowledge, technical skills and experience will be other factors of consideration.

5 | CHALLENGES and RECOMMENDATIONS

CHALLENGE	RECOMMENDATION
The nature of long-tail coverage and the tendency of penetrating into difficult markets could pose as a serious challenge for ICIEC to get the required RI support from the market	• Diversify out target market and on the look out for new, untapped territories • Emphasize to our existing policyholders to approach ICIEC early for transactions in new market; rather than after few years when capacity in such market has almost depleted • Consider writing for a shorter tenor or break the tenor into 2 parts
Limited capital that may have impact on ICIEC's overall retention	• Increased in paid-up capital is a must; • Look out for new reinsurance markets that can support ICIEC's business
Reduction in reinsurance market capital resulting to lesser capacity but demand is still very high As a result, rates hardened when reinsurers opt to maximize profits	• Revamp ICIEC's pricing to be on par with the reinsurance market requirements for multilaterals;
New human resource required	• Addition of new human resource is a must to execute efficiently the new expanded mandate of the Reinsurance Function.

6 | Reinsurance Strategic Plans 2024 - 2026

- i. To continue exploring new reinsurance partnership from non-traditional partners in Australia, USA and Singapore namely ACR, QBE Insurance, DFC, Scor re and Bond & Credit Insurance Company.
- ii. Immediate action for Reinsurance Function is to work closely with the team of underwriters from Sovereign underwriting and sales colleagues in BDD to ensure the MT and FII Treaty is fully utilized especially on large transactions and in the high-risk countries (with minimal retention) in enhancing the projected business growth in the segment.
- iii. In coordination with other departments namely BDD and RMD, Reinsurance Function will work to canvas early on reinsurance market appetite on certain countries that are identified as potential target countries.
- iv. Reinsurance Function to work closely with Insurers, Exim Banks and ECAs, particularly from member countries for the purpose of enhancing the Inward Reinsurance Business through a Treaty or Facultative arrangement and provide an indirect support of the local ECAs. All inward reinsurance administrative duties to be fully managed by Reinsurance Function.
- v. To increase the potential commission income of the Corporation via more direct placement with the reinsurance market, with lesser intervention of an intermediary.

Continuation

- vi. A new professional staff is required to join the Reinsurance Function to help managing the enhanced mandate of the Reinsurance Function. Currently, the Function is managed by 2 staff, including the Head of Reinsurance. With the plan of seeking more outward reinsurance support on a direct basis and a clear mandate to manage the Inward Reinsurance Business within the purview of the Reinsurance Function, there will be an urgent need to add 1 additional supporting staff to assist the expanded scope of business. The Corporation will also be less reliant on the RI broker and put in extra efforts to deal directly with the private reinsurance market. This initiative will no doubt increase the commission income for the Corporation.
- vii. Ideally, Reinsurance will be structured to Treaty and Facultative with dedicated staff managing all aspects of each function.
- viii. To work closely with LAD in ensuring all policy wordings are up to date and in line with the requirements of Lloyd's market.
- ix. To conduct roadshows and mobilize support from the private reinsurance market in garnering reinsurance support for the new product initiatives in ICIEC such as ESG, Sukuk, and Aviation Financing.
- x. To conduct a study with a chosen partner on the possibility of reducing the current gross exposure of the Corporation, such as buying excess of loss policy as an added protection.

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Throughout the period 2024 – 2026, it is important for ICIEC to utilize fully its Treaty program for the medium term and investment insurance business to support the projected business growth in these areas. In parallel, the facultative reinsurance will continue to be utilized at a larger scale for large ticket transactions and for high-risk countries where ICIEC's net retention will need to be kept at the minimum.

Due to the limited available internal capacity, it would be prudent for ICIEC to mobilize additional capacity from the reinsurance market and reduce its net retention to ensure sustainable growth plan in the next 3 years is met and fulfill its mandate to the member countries while preserving the existing capital of ICIEC.

While the reinsurance entails risk sharing with other partners and therefore ceding part of the gross premium income to the reinsurers, it generates an income in terms of the reinsurance commission. This reinsurance commission income is expected to be at a level of 18% of the gross premium in 2023 to more than 20% of the gross premium by 2025. Such important increase is a result of:

- The projected increase of ICIEC's gross premium income;
- The higher utilization of reinsurance and increasing reinsurance cession as a percentage of the gross premium due to limited internal capacity, and more importantly;
- The high percentage of the reinsurance commission percentage that ICIEC received under treaty reinsurance compared facultative reinsurance. The fact that almost all the medium term and investment insurance business will be partly or fully ceded under the MT and FII treaty is expected to significantly enhance the ceding commission income for the Corporation.

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Inward Reinsurance

	Financial Year (USD)			
Net Earned Ceded Premium	2020	2021	2022	2023*
CAGEX (Algeria)	(77,096)	438,542	(33,542)	4,184
Indonesia Eximbank (Indonesia)	11,222	10,129	13,778	-
ASEI (Indonesia)	9,557	19,049	37,236	31,344
JLGC (Jordan)	-	3,221	56,282	119,696
KazakhExport (Kazakhstan)	-	-	11,497	112,587
NAIFE (Sudan)	37,076	22,398	-	-
TurkEximbank (Turkey)	450,699	702,225	1,155,438	1,069,118
COTUNACE (Tunisia)	7,939	34,909	40,399	43,104
Total	439,398	1,230,472	1,281,088	1,380,033

- As can be seen above, the net ceded premium generated from the inward treaty programs increased steadily from financial year 2021 to 2023* (as at June 2023).

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- In early 2023, ICIEC had signed a new takaful treaty program with Turkexim Bank. We expect there will be a new treaty program signed with the Indonesia Eximbank for their new takaful cover for the export credit and investment insurance. Besides that, ICIEC also received an invitation from Pakistan Eximbank to participate in the treaty program for their new takaful products under export credit and investment insurance.
- With the continuous intention of increasing our pool of Inward Quota Share Treaty and Master Facultative Agreement with the ECAs and Insurance companies, clearly there is a need for an additional staff in the Reinsurance Function to efficiently managing the activities.

THANK YOU



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