

MARKET BULLETIN

REF: Y5071

Title	SUSEP clarifies Preferential Offer to Brazilian Local Reinsurers
Purpose	To provide guidance to the market on the rules governing the preferential offer requirement – i.e. the local market's right of first refusal on 40% of each reinsurance risk.
Type	Event
From	Yael Chen, Senior Manager, International Regulatory Affairs
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Related links	Circular SUSEP 545

Background

On 27 January 2017, the Brazilian insurance regulator, Superintendência de Seguros Privados (SUSEP), published [Circular SUSEP 545](#) (the 'Circular') clarifying the rules governing the preferential offer requirement – i.e. the local market's right of first refusal on 40% of each reinsurance risk.

This Market Bulletin describes the process that Brazilian insurers are required to complete in order to satisfy the preferential offer and mandatory cession requirements. Please be advised that this Market Bulletin updates and complements previous information on mandatory reinsurance cessions and requirements for local cedants outlined in [Market Bulletin Y4917](#) and [Market Bulletin Y4458](#).

Preferential Offer

To satisfy the preferential offer requirement, Brazilian insurers must engage in a formal consultation with the local market, offering at least 40% of each reinsurance risk under the same terms and conditions available from Admitted or Occasional Reinsurers ("non-Brazilian reinsurers"). Local Reinsurers should respond as to whether the offer is accepted, in part or in its entirety, or whether they prefer different conditions. A Local Reinsurer's express declinature or failure to respond within a set timeframe (five days for facultative contracts or ten days for treaty business) is considered a definitive refusal,

meaning cedants will not be required to recirculate the risk to them if the terms and conditions of the contract change later. The deadline for responding to the consultation may be paused (once for facultative or more than once for treaty contracts) if Local Reinsurers make a reasonable request for additional information.

In summary, the preferential offer requirement is met when:

1. 40% of a risk has been placed with Local Reinsurers; or
2. the local reinsurance market partially or entirely declines the risk and the remaining percentage is placed with non-Brazilian reinsurers under the **same** terms and conditions offered to the local market; or
3. non-Brazilian reinsurers provide coverage for a risk under terms and conditions **different** to those previously offered to and declined by the local market.

Mandatory Cession Requirement

Unless satisfied by Local Reinsurers' uptake of a preferential offer of 40% as outlined above, Brazilian insurers are required to cede a minimum percentage of each risk to Local Reinsurers. As of 1 January 2017, Brazilian insurance companies are required to cede a minimum of 30% of each reinsurance cession to Local Reinsurers, under terms proposed by the Local Reinsurers. This minimum mandatory cession will decrease incrementally by 5% per calendar year until 2020 as follows:

- Minimum of 30% mandatory cession in 2017
- Minimum of 25% mandatory cession in 2018
- Minimum of 20% mandatory cession in 2019
- Minimum of 15% mandatory cession in 2020 onwards

In the event that all Local Reinsurers decline to underwrite a reinsurance risk or in the aggregate accept only a portion of a risk, and thus the mandatory cession cannot be placed with Local Reinsurers, non-Brazilian reinsurers such as Lloyd's may underwrite the remainder up to 100% of that cession, as per CNSP Resolution 241 of 2011. For more information please see [Market Bulletin Y4554](#).

Further Information

For additional information on the preferential offer requirement and mandatory cessions, please see [Crystal](#).

If you have any queries relating to this bulletin, please contact:

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