

FSC TO INTRODUCE COINSURANCE FOR PRIMARY INSURERS

FSC Vice Chairman Sohn Byungdoo presided over a meeting on January 30, 2020 to discuss plans to introduce coinsurance for insurance companies in preparation for the implementation of the new accounting and solvency rules, the International Financial Reporting Standards (IFRS) 17 and K-Insurance Capital Standard (K-ICS).

The introduction of coinsurance is expected to help improve financial soundness of primary insurers as they are able to cede risks associated with insurance products to reinsurance companies.

COINSURANCE

Coinsurance is a type of full-risk reinsurance through which primary insurers can transfer risks to reinsurers at premiums. Coinsurance is different from traditional reinsurance because it allows primary insurers to cede an entire block of risks including the investment portion and expense loading of the premium, instead of only the risk portion of the premium. Traditional reinsurance normally has a yearly renewable term whereas coinsurance offers longer term deals.

EXPECTATION

- I. Primary insurers with high interest rate products can cede risks associated with interest rate volatility or cancellation to reinsurers, thereby boosting their financial soundness.
- II. The coinsurance scheme will provide more tools for insurers to improve their financial soundness as it helps downsize required capital (denominator), whereas the issuance of hybrid or subordinated bonds works to increase the available capital (numerator) in calculation of risk-based capital (RBC) ratio.
- III. Coinsurance has been widely used in the European and the US insurance markets. The know-hows and asset management experiences of the overseas reinsurers will be useful.

SPECIFIC PLANS

To introduce coinsurance, the government will make the following changes to the current regulations and rules on the supervision of insurance businesses – a) permit coinsurance, b) make accounting methods clearer, c) improve the risk-based capital ratio, and d) introduce a new post-factum reporting requirement while encouraging insurance companies to strengthen their internal control procedures.