

# Discussion on Case Study

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# 1. Risks of current business profile/strategy

## Concentration

- Dominant line of bz
- Reinsurance

## Underwriting

- Expertise and data
- Retention level/PML

## RI Counterparty

- Credit
- Liquidity
- Legal/operational

## Operational

- Rapid expansion
- Underwriting standards

**Strain on the  
capital position**

## 2. Weaknesses in reinsurance arrangement

- Ineffective reinsurance strategy and management
- Questionable use of credit ratings
- Concentration in reinsurance counterparties
- 100% (fronting) quota share arrangement
- Inadequate financial controls
- Poor contract certainty

### 3. Suggestions for XAI to improve risk management

- Formal Reinsurance Strategy and Management
  - ✓ Formal reinsurance strategy – risk appetite, PML/retention, criteria for reinsurers
  - ✓ Effective Board oversight – documented/approved, regular review
- Review net exposures and concentration risk
- Ensure contract certainty
- Effective financial controls
  - ✓ Explicit and clear policy and procedure to monitor reinsurance recoverables

## 4. Suggestions for the Supervisor

- Consider phasing out mandatory cessions
  - Unintended concentration of risk
- Review capital treatment of reinsurers
- Consider guidelines on risk management:
  - Guidance on contract certainty standards
  - Guidance on establishing effective reinsurance management strategy
  - Guidance on the role of the Board on reinsurance management
  - Guidance on sound underwriting