

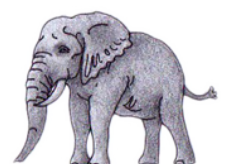
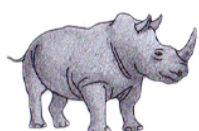
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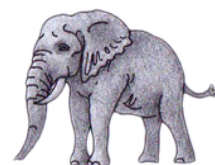
UNDERSTANDING REINSURANCE

Content

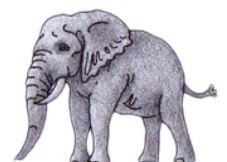
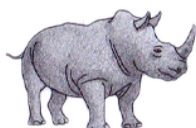
1 INTRODUCTION.....	8
2 THE HISTORY OF INSURANCE AND REINSURANCE.....	9
2.1. Origin of Insurance.....	12
2.2. The First Insurance Companies.....	13
2.3. The Early Professional Reinsurers.....	13
2.4. The Development of Reinsurance in Africa.....	14
2.5. The Basis of Modern Insurance.....	15
3 DEFINITION OF REINSURANCE.....	17
3.1. Definition.....	17
3.2. Spreading Risks: from Policyholders to Reinsurance.....	18
3.3. Parties to a Reinsurance Contract.....	20
3.4. Legal Principles Applicable to Reinsurance.....	20
3.5. Similarities and Differences between Insurance and Reinsurance.....	22
4 PLAYERS IN THE REINSURANCE MARKET.....	25
4.1. Buyers and Providers of Reinsurance.....	25
4.1.1 Insurance Companies.....	25
4.1.2 Professional Reinsurers.....	25
4.1.3 LLOYD'S SYNDICATES.....	26
4.1.4 Captive Companies.....	26
4.1.5 Pools.....	27
4.2. Reinsurance Intermediaries.....	27
5 WHY INSURANCE COMPANIES NEED REINSURANCE.....	29
5.1. Loss Limitation.....	29
5.2. Provide Capacity to the Insurer.....	30
5.3. Create Financial Stability.....	30
5.4. Protect Solvency Margins.....	30
5.5. Provide Value Added Services.....	31



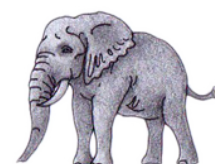
6 BASIC FORMS AND TYPES OF REINSURANCE.....	33
6.1. Facultative Reinsurance.....	34
6.1.1 Definition and Key Features.....	34
6.1.2 Advantages and Disadvantages.....	35
6.1.3 An example of a Facultative Proportional Reinsurance Arrangement.....	35
6.1.4 An example of a Facultative Non-proportional Reinsurance Arrangement.....	37
6.2. Treaty Reinsurance.....	39
6.2.1 Definition and Key Features.....	39
6.2.2 Proportional Treaty Reinsurance.....	40
6.2.3 Non-Proportional Treaty Reinsurance.....	51
7 REINSURANCE DOCUMENTATION.....	57
7.1. Intermediary's / Reinsurer's Cover Note.....	57
7.2. Reinsurance Treaty Agreement.....	60
7.3. Slip Analysis.....	60
7.3.1. Facultative Slip.....	60
7.3.2. Treaty Slip.....	63
7.4. Treaty wording analysis and important clauses.....	64
7.4.1. Proportional.....	64
7.4.2. Non-Proportional.....	69
8 OTHER TYPES OF REINSURANCE COVER.....	71
8.1. Top and Drop covers.....	71
8.2. Industry loss warranties.....	72
8.3. Non-traditional covers.....	74
8.4. Insurance linked securities.....	74
8.5. Run-off reinsurance.....	75
9 REINSURANCE ACCOUNTING CONCEPTS.....	76
9.1. The purpose of reinsurance accounting.....	76
9.2. Proportional accounting.....	76
9.2.1 Accounting year.....	78
9.2.2 Underwriting year.....	79
9.3. Non-proportional accounting.....	83



10	STATISTICS, INCURRED BUT NOT REPORTED (IBNR) AND RISK PROFILES.....	90
10.1.	Statistics.....	90
10.2	Incurred but not reported (IBNR).....	92
10.3	Risk profiles.....	93
11	PRICING METHODS.....	95
11.1	Proportional pricing.....	95
11.2.	Non-proportional pricing	98
12	THE REINSURANCE RENEWAL CYCLE.....	105
13	BASIC BUILDING BLOCKS.....	107
13.1.	What is a risk?.....	107
13.2.	What is a loss - losses occurring, policies issued, claims discovered, claims made.....	108
14	REALISTIC DISASTER ANALYSIS WHAT COULD HAPPEN AND HOW MUCH COULD IT COST?.....	112
14.1.	Property.....	112
14.2.	Liability.....	113
14.3.	Marine hull and cargo.....	113
14.4.	Life and sickness.....	113
14.5.	Aviation.....	114
15	REVIEWING INTERNAL RESOURCES.....	115
15.1.	Administration to distribute risks and losses under different types of cover.....	115
15.2.	Accounting requirements of different types of cover.....	116
15.3.	Information requirements.....	116
16	REINSURANCE STRUCTURES.....	117
16.1.	The objectives of a reinsurance programme.....	117
16.2.	Factors which influence programme design.....	118
16.3.	Setting retentions.....	119



16.4.	Combining proportional and non-proportional treaties.....	119
16.5.	Scenario analysis, examples of running losses through various structures.....	120
16.6.	Consideration of alternative risk transfer methods.....	121
16.7.	Pricing logic / affordability.....	123
17	CASE STUDY.....	125
17.1.	The motor account.....	125
17.2.	The property account.....	128
17.3.	Further review.....	130
18	IMPORTANT CLAUSES.....	133
18.1.	Reinstatement.....	133
18.2.	Index	134
18.3.	Currency fluctuation.....	136
18.4.	Hours clause.....	137
18.5.	Claims co-operation and ex gratia claims.....	137
19	CHOICE OF REINSURER.....	139
20	CHOICE OF REINSURANCE INTERMEDIARY.....	141
21	CONCLUSION.....	143
22	TEST	
	MULTIPLE CHOICE QUESTION.....	145
23	CASE STUDY.....	152
24	CASE STUDY.....	153
A	APPENDIX	
	SPECIMEN FACULTATIVE FIRE REINSURANCE SLIP.....	155



B APPENDIX

SPECIMEN MOTOR XL SLIP.....157

C APPENDIX

AN EXAMPLE OF A FIRST LOSS SCALE.....159

D APPENDIX

AN EXAMPLE OF A PROPORTIONAL TREATY WORDING.....161

E APPENDIX

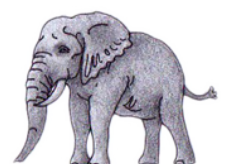
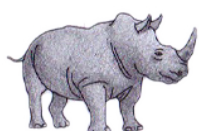
AN EXAMPLE OF A NON-PROPORTIONAL TREATY WORDING.....210

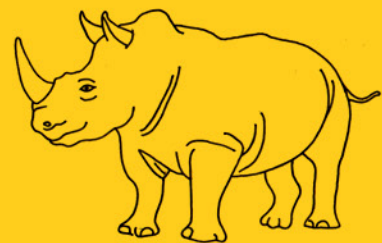
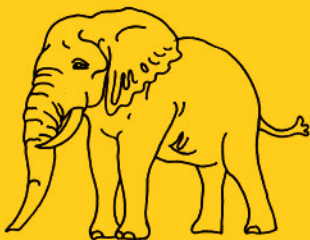
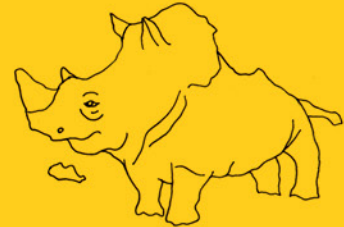
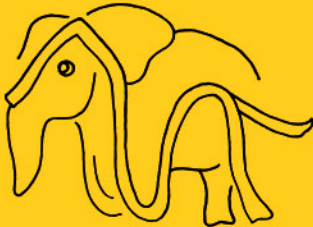
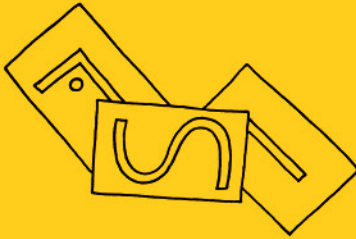
F APPENDIX

MULTIPLE CHOICE ANSWERS.....225

G APPENDIX

CASE STUDY 24 ANSWERS.....227





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The power of knowledge fitting the pieces together

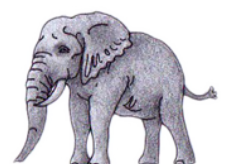
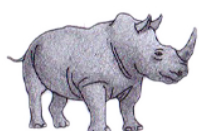
1. INTRODUCTION

There can be few religions or societies that do not support the notion that we should help one another, and this fundamental principle has been reflected from the earliest family groups right up to the modern promotion of the welfare state. Without protection from nature's basic risks it is difficult for societies to evolve. Farmers are reluctant to take on heavy debt where they are totally reliant on the weather, and investors are reluctant to send ships around the world, to build large organisations or encourage economic development where too many risks are involved.

The notion of helping one another has ranged from wholly non-profit organisations and charities, to co-operatives, mutual societies, to for-profit insurance companies and more recently takaful.

Whichever form of organisation takes on large and complex risks, it needs to manage those risks responsibly if it is to fulfil its objectives in a business-like manner and properly protect its customers.

There is no substitute for technical appreciation and knowledge when it comes to managing risks, and "Understanding Reinsurance" is part of a series of courses designed to this end.



The main sections of this manual are as follows:

The history of insurance and reinsurance

Learning objective: To understand the origins of insurance and reinsurance to enable you to put these subjects into the context of the general development of commerce and business throughout the world.

As the demands of commerce evolve, so does the need to innovate in insurance and reinsurance.

Definition of reinsurance

Learning objective: To understand the meaning of reinsurance, and the concept of spreading risks starting with the policyholder, the buyer of insurance, and passing through the insurance company, to reinsurers and then on to retrocessionaires.

To know who are the parties to a reinsurance contract.

To understand the legal principles applicable to reinsurance.

To understand the similarities and differences between insurance, reinsurance, and retrocession.

The players in the reinsurance market

Learning objective: To know who are the main buyers and capacity providers in the reinsurance marketplace and the place of reinsurance intermediaries.

Why Insurance Companies Need Reinsurance

Learning objective: To understand the main drivers behind the need for insurance companies to purchase reinsurance, and similarly for reinsurers to buy retrocession covers.

Basic Forms and types of Reinsurance

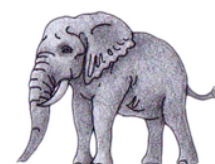
Learning objective: To understand the meaning of the words “facultative” and “treaty” which describe the main forms of reinsurance.

To understand the meaning of the words “proportional” and “non-proportional” which describe the main types of reinsurance.

To understand the meaning of the words “quota share”, “surplus” and “facultative obligatory” which are sub-types of proportional treaty reinsurance and how these treaty types spread risk. Also, how premiums and losses are distributed working with these treaties.

To understand the meaning of the words “risk excess of loss”, “catastrophe excess of loss” and “stop loss” which are sub-types of non-proportional treaty reinsurance and how these treaty types spread risk. Equally, how premiums and losses are processed working with these treaties.

To understand how some of these forms and types can be used in combination.



Reinsurance Documentation

Learning objective: To be aware of the main documents that define the agreements between the market players, the importance of clarity when preparing documents, and the challenge of finding the right mix between detail and too much complexity.

To be familiar with proportional and non-proportional treaty wordings and be able to check treaty wordings for important clauses and understand their meaning.

Other types of reinsurance cover

Learning objective: Be familiar with other forms of reinsurance cover and the developing links to the financial markets.

Reinsurance accounting concepts

Learning objective: Understand the main accounting flows in proportional and non-proportional reinsurance and the difference between proportional treaties on a clean cut and underwriting year basis.

Statistics, incurred but not reported (IBNR) and risk profiles

Learning objective: Be familiar with statistics on a clean cut and underwriting year basis, and how to calculate IBNRs. Also, the use of risk profiles.

Pricing methods

Learning objective: Be familiar with pricing techniques for proportional and non-proportional treaties.

The reinsurance cycle

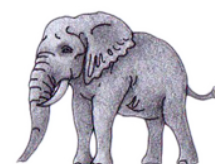
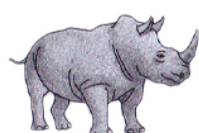
Learning objective: Be familiar with the reinsurance cycle and the timings for essential tasks.

Basic building blocks - risks and losses

Learning objective: To have a clear understanding of what is a risk, and what is a loss under different scenarios.

Realistic loss scenarios

Learning objective: To be able to create realistic loss scenarios for the different classes of business and the possible interaction between these classes.



Administration

Learning objective: To appreciate the resources necessary to administer different forms and types of reinsurance cover.

Building a reinsurance programme

Learning objective: To understand the process of putting a reinsurance programme together, objectives and influencing factors. How to best review retentions and to understand how losses flow through different reinsurance structures. To be able to test the robustness of a proposed structure against different loss scenarios. Affordability.

Important clauses

Learning objective: To be familiar with important reinsurance clauses that can limit or expand cover.

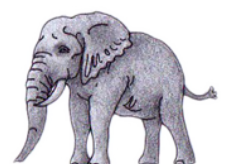
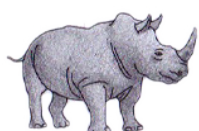
Choosing a reinsurer

Learning objective: To identify the right reinsurers

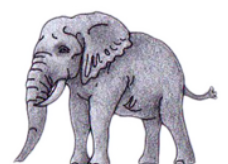
Choosing a reinsurance intermediary

Learning objective: To choose the right reinsurance intermediary

We hope this manual will provide you with the basic knowledge you will need to understand this important and fascinating subject, and will encourage your further research.



E. **APPENDIX E** AN EXAMPLE OF A NON-PROPORTIONAL TREATY WORDING



1. APPENDIX E – AN EXAMPLE OF A NON-PROPORTIONAL TREATY WORDING

Property Catastrophe Excess of Loss Treaty

Article I - Business Covered (NP11)

This Agreement reinsures, subject to the exclusions as hereinafter provided, insurance and reinsurance written by the Reinsured as set out in the schedule.

Article II - Limits of Indemnity (NP21)

The Reinsurer hereby undertakes as regards its agreed share set out in the schedule to indemnify the Reinsured for that part of the ultimate net loss which exceeds the amount of the deductible set out in the schedule and the sum recoverable under this agreement shall not exceed the amount set out in the schedule in respect of any one such net loss.

It is warranted that the Reinsured shall retain net for its own account without specific reinsurance the percentage set out in the schedule of any ultimate net loss together with the deductible set out in the schedule.

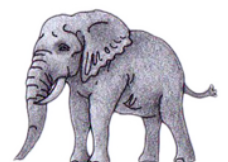
Article III - Period of Application (NP31)

This Agreement applies to the Ultimate Net Loss paid by the Reinsured in respect of business reinsured hereunder in accordance with the preceding Articles in respect of individual insured losses which occur during the period of this agreement as set out in the schedule.

For the purposes of this Agreement an insured loss shall be deemed to occur when the loss of or damage to the original subject matter of insurance caused by the operation of an original insured peril first becomes manifest.

Article IV - Territory (NP41)

This Agreement applies to property located in territories set out in the schedule.



Want to see more?

Contact London School of Insurance

info@londonschoolofinsurance.com

