Basics of Reinsurance

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Agenda

01 What is Reinsurance

02 Reasons for Reinsurance

03 Types of Reinsurance

04 Basic Example of Proportional treaty
What is Reinsurance
What is Reinsurance

Reinsurance - insurance for insurance companies”.

A reinsurance transaction is an agreement between two or more parties, the reinsured or ceding company and reinsurer(s). The reinsurer(s) agree to accept a certain Portion of the reinsured’s risk upon terms and conditions as set out in the agreement.
What is retrocession?

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Insurance Process

Uninsurable Risks?
- Risks that can not be diversified
- Non-damage business interruption
  - Pandemic risk
  - Cyber risk

Primary Insurer
- Deals with the public
- Insurer individual assets
- Can be direct or intermediated

Reinsurance
- Insurance for insurers
- Mainly portfolio accounts
- Facultative mostly on individual risk basis
- Can be direct or intermediated (RI broker)

Retrocession
- Insurance for Reinsurers
- Portfolio basis
- Reinsurers fail safe

Insured
- Individual
- Company
- Seeks indemnity in an event of a loss
Purpose of Reinsurance
Why would an insurance company take out reinsurance?

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Reasons for Reinsurance

- Avoid Single Large Loss
- Capacity increase
- Smooth Results
- Financial Assistance
- Expertise
- Diversification
- Limit Accumulation
Reinsurance Types
Reinsurance Types

Reinsurance forms

- Obligatory (treaty)
- Facultative
Reinsurance Types – Overview

Obligatory

➢ Primary Insurer and reinsurer enter into an agreement for an entire portfolio of risks
➢ The primary insurer is obligated to cede all business under the terms and conditions of the treaty
➢ The reinsurer is obligated to accept all risks ceded by the reinsured
➢ The terms and conditions as described in the contract schedule and wording

Facultative

➢ Primary Insurer has the option of ceding a risk
➢ Reinsurer has the option to accept or to decline
➢ Each risk is considered individually
➢ Terms and conditions are negotiated individually per risk ceded
Reinsurance Types

Facultative
- Proportional
  - Quota Share
- Non-Proportional
  - Excess of Loss

Obligatory (Treaty)
- Proportional
- Non-Proportional
  - Surplus Quota Share
  - Working Covers
  - Umbrella Covers
  - Catastrophe Covers
Reinsurance Types - Proportional

Liability, premium and losses are split proportionally

Reinsurer

Primary Insurer

Liability

y %

x %

Primary Insurer

Reinsurer

Premium

y %

x %

Primary Insurer

Reinsurer

Claim

y %

x %
Reinsurance Types - Proportional

How do they work?

Primary insurer:

- Calculates premium including acquisition and administration costs
- Cedes part of the original premium, including the portion attributable to costs to the reinsurer.

Reinsurer:

- Reimburses the costs via commission
- Pays % of losses

% of Losses + Commission
Reinsurance Types – Non-Proportional

Non-Proportional Reinsurance

• Reinsured undertakes to pay all losses **up to a pre-agreed amount.** (Treaty **Priority** / **Deductible**.)

• Reinsurers pay the balance of losses that exceed this amount – but only up to a pre-agreed **limit.** (Hence the terminology ‘**Excess of Loss**’ / **XoL**.)

• Reinsured and Reinsurers do not share the risk, they share the **loss** on an **XoL** basis.

• Loss can mean a single loss or an aggregation of losses.

• The premium is calculated and paid upfront.
Reinsurance Types – Non-Proportional

Primary Insurer:
- Pays upfront premium
- Fixed % of the Gross net premium income (GNPI)
- Minimum and deposit premium is often applicable

Reinsurer:
- Charges the rate at which they are willing to accept the losses in excess of the client's retention
- Pays losses in excess of the client's retention
- No commission is paid back
Reinsurance Types – Non-Proportional

Treaty structure: R 600,000 in excess of R 400,000

R 600,000 = Limit (of liability for Reinsurer)

Priority (paid by Reinsured)
Basic Example
Basic Example – Quota share

Quota Share Example

- The **ratio** of retained liability to ceded liability is **the same for each and every risk** (up to treaty limit).

- Insurer cedes a **fixed percentage** of liabilities, premiums and claims, irrespective of the sum insured.

- Treaty limit is a fixed amount. This is the maximum amount that can be ceded into a treaty.
Basic Example – Quota share

➢ An insured places 80% quota share treaty with Munich Re.
➢ Treaty capacity is 8000.
➢ What does that mean?
Questions!

Sindiswa Mabelwane
Thank you!

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Your feedback matters

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