

Facultative Accounting

March 2023
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NOT IF, BUT HOW



01

Facultative
Definition

02

Placement of
Facultative

03

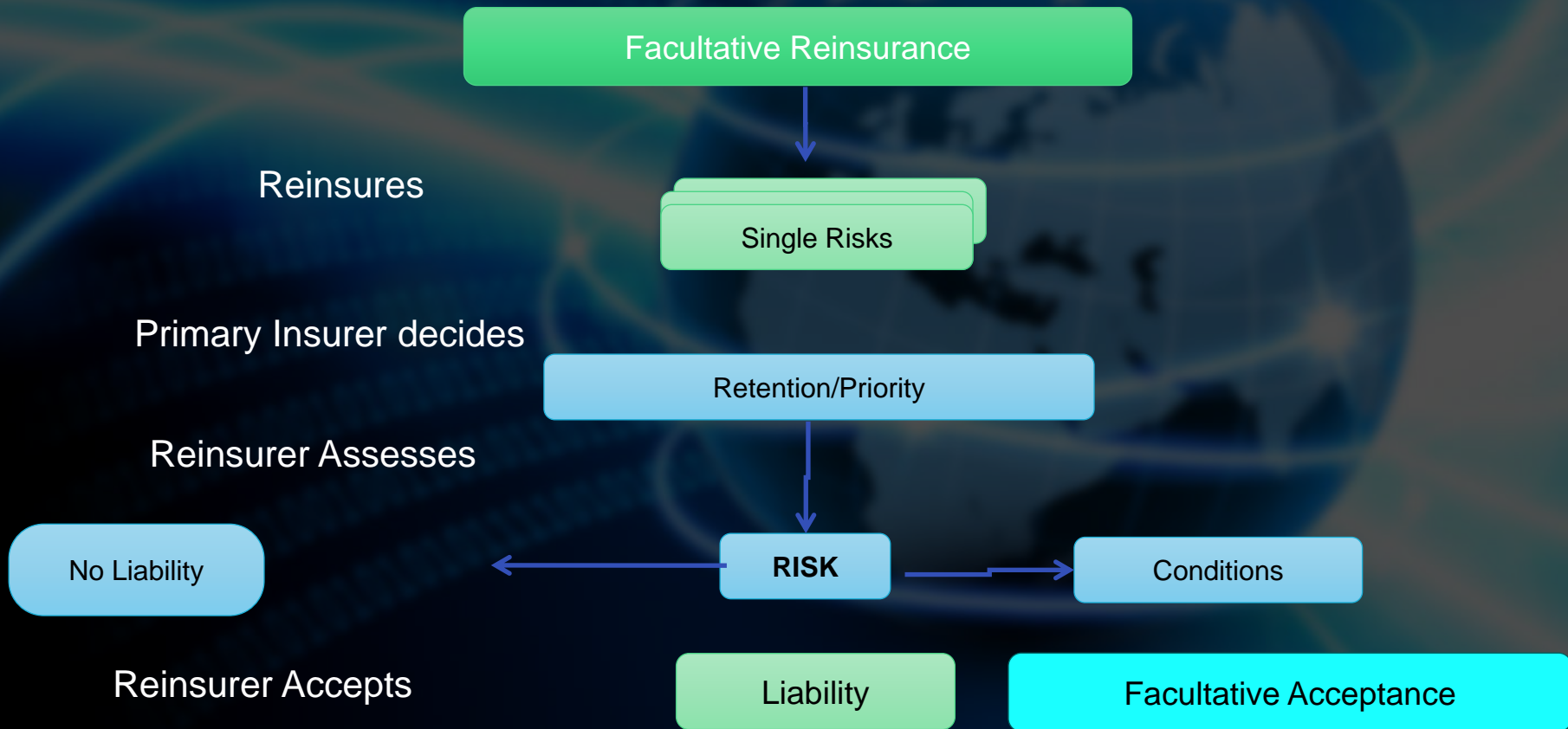
Procedures for
Facultative

04

Premium
Payment
Clause

05

Facultative
Chasing
Process by RIA



Obligatory Reinsurance (Treaty Business)

- Insurer and reinsurer enter into an agreement for an entire portfolio of risks
- The insurer has to cede
- The reinsurer has to cover

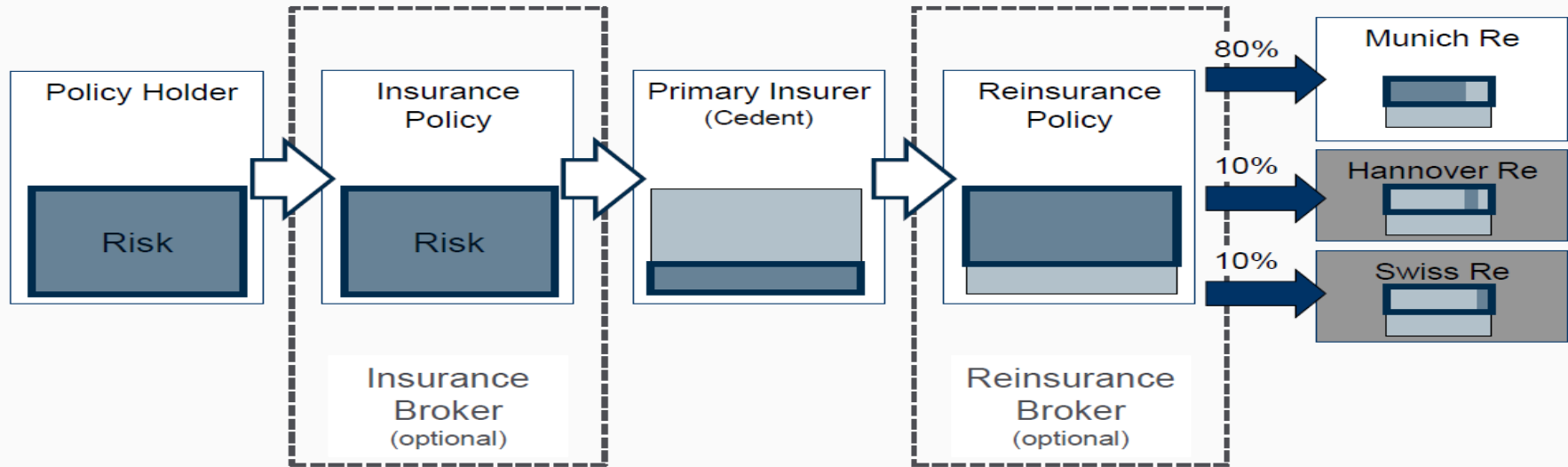


Facultative Reinsurance (Single Risk Business)

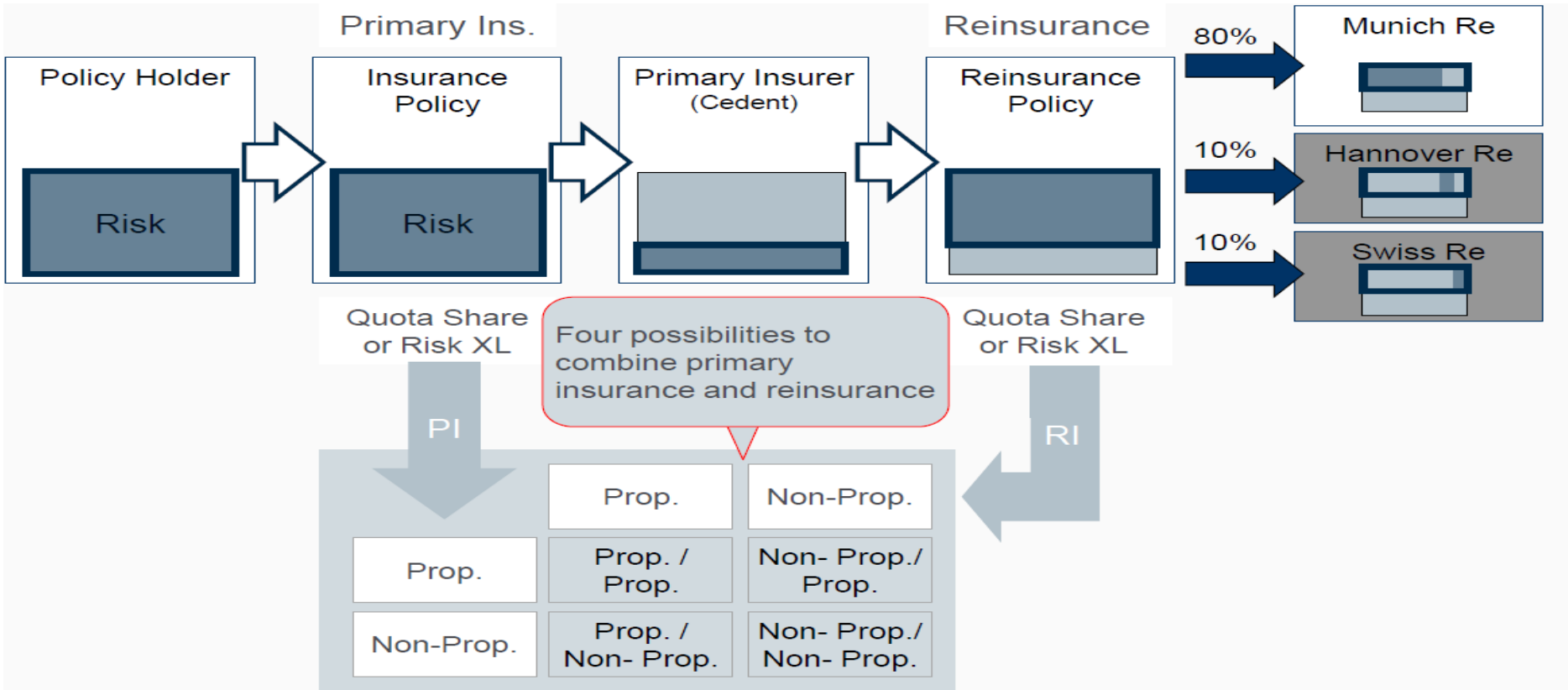
- Insurer has the option of ceding a risk
- Reinsurer has the option to accept or to decline
- Terms and conditions have to be negotiated individually



Submission Original & Reinsurance Structure I



Submission & Reinsurance Structure II



Placement of Facultative Casualty or Property Reinsurance

- The Ceding Company provides the reinsurer with their risk information. The reinsurer analyses the information, which becomes part of the reinsurer's permanent file.
- If the reinsurer is willing to write the risk, it gives a quote and sends the ceding company a written confirmation.
- If the quote is accepted, the reinsurer sends a confirmation of binder.
- The ceding Company sends the reinsurer a copy of its policy from which the reinsurer prepares a certificate of reinsurance.
- If a broker is used by the ceding company, all transactions including exchanging risk information, quotes and binders occur through the broker.

Procedures for the Transaction of All Classes of Facultative Reinsurance

3. Confirmation Of Cover

3.1 Inception Date

Each offer of facultative cover which is accepted by the Reinsurer shall be confirmed by the Reinsured by way of a Reinsurance Slip which shall be submitted to the Reinsurer within 30 (thirty) days from the Inception Date, unless otherwise agreed in writing, failing which cover shall cease with effect from the Inception Date. Telefax or electronic mail is acceptable for purposes of this procedure.

3.2 Quotations

Quotations issued by Reinsurers both in respect of new business and amendments to existing business shall be valid for 30 (thirty) days from the date of the quotation. If not accepted within 30 (thirty) days in writing, the quotation shall be treated as “not taken up”.

4. Reinsurance Slips

- 4.1 The Reinsurance Slip, when initialled by the Reinsurer will constitute proof of the Reinsurance Agreement between the Reinsured and the Reinsurer.
- 4.2 Reinsurance Slips shall contain all the material underwriting terms and conditions of the Reinsurance Agreement. The minimum essential terms and conditions that shall be contained in the Reinsurance Slip shall be recorded on the Schedule which is attached hereto marked Annexure “A”.

Procedures for the Transaction of All Classes of Facultative Reinsurance

9. Premium Bordereaux

9.1 Subsequent to submission of the Reinsurance Slip as provided for in clause 3.1 above, the Reinsured shall forward to the Reinsurer a Premium Bordereau **within 60 (sixty) days** of the Inception Date which shall contain the following:

- Insured's name
- Bordereau Number
- Month of the Account
- Reinsured's Reference
- Period of Reinsurance
- Reinsured's Sum Insured
- Reinsured's Gross Premiums allocated to Class of Business
- Reinsurer's Proportion
- Reinsurer's Amount
- Reinsurer's Gross Premium
- Reinsurance Commission

9.2 Similar Bordereaux numbered consecutively will be sent to the Reinsurer in respect of all premium related endorsements to the underlying insurance policy which shall include details of any additional and refund premiums, **within 60 (sixty) days** of the effective date of such endorsement.

9.3 A renewal Bordereaux will be sent to the Reinsurer **within 60 (sixty) days** of the Renewal Date.

Procedures for the Transaction of All Classes of Facultative Reinsurance

10. Premium Payments

- 10.1 All premiums due to the Reinsurer shall be paid **within 90 (ninety) days** from the Inception Date or the Renewal Date of the Reinsurance Agreement or within such other period as may be agreed upon by the parties. Simultaneously, Reinsurers undertake to pay the Reinsured any reinsurance commission that has been agreed.
- 10.2 Failure to pay premiums within the prescribed period shall automatically result in cancellation of the Reinsurance Agreement from the Inception Date or the Renewal Date.
- 10.3 Clauses 11.1 and 11.2 shall not apply to monthly premium business and business where premium is paid monthly, but special arrangements will be negotiated between the parties.
- 10.4 If the Reinsurer has assumed liability under a Reinsurance Agreement, it is entitled to its share of the reinsurance premium even if the Reinsured has not received the premium owing to it. However, in the event that no liability attaches between the Insured and the Reinsured, the aforesaid-receipted premium will be refunded.


Procedures for the Transaction of All Classes of Facultative Reinsurance

11. Claim Notification

The Reinsurer shall be advised of all claims or potential claims together with relevant details, where the Reinsurer is likely to be affected, **within 30 (thirty) days** of the Reinsured becoming aware of such claim or potential claim. The Reinsured will keep the Reinsurer informed of all developments affecting liability or estimated probable costs. Failure to adhere to these requirements leading to prejudice of the Reinsurer will entitle the Reinsurer to avoid liability in respect of the claim.

Should the parties be unable to agree on whether the Reinsurer has in fact suffered prejudice and hence whether the Reinsurer is entitled to avoid liability for the claim, the dispute shall be referred to Arbitration for resolution.

12. Claims

12.1 In respect of proportional reinsurance all claims and expenses, excluding salaries and the office expenses of the Reinsured, incurred by the Reinsured within the conditions of the underlying Policy, excluding ex-gratia payments, will be binding on the Reinsurer. The Reinsured may request settlement of the amounts due from the Reinsurer on Loss Bordereaux.  **NO Offsetting of Claims in Fac Statements !!!!!!!**

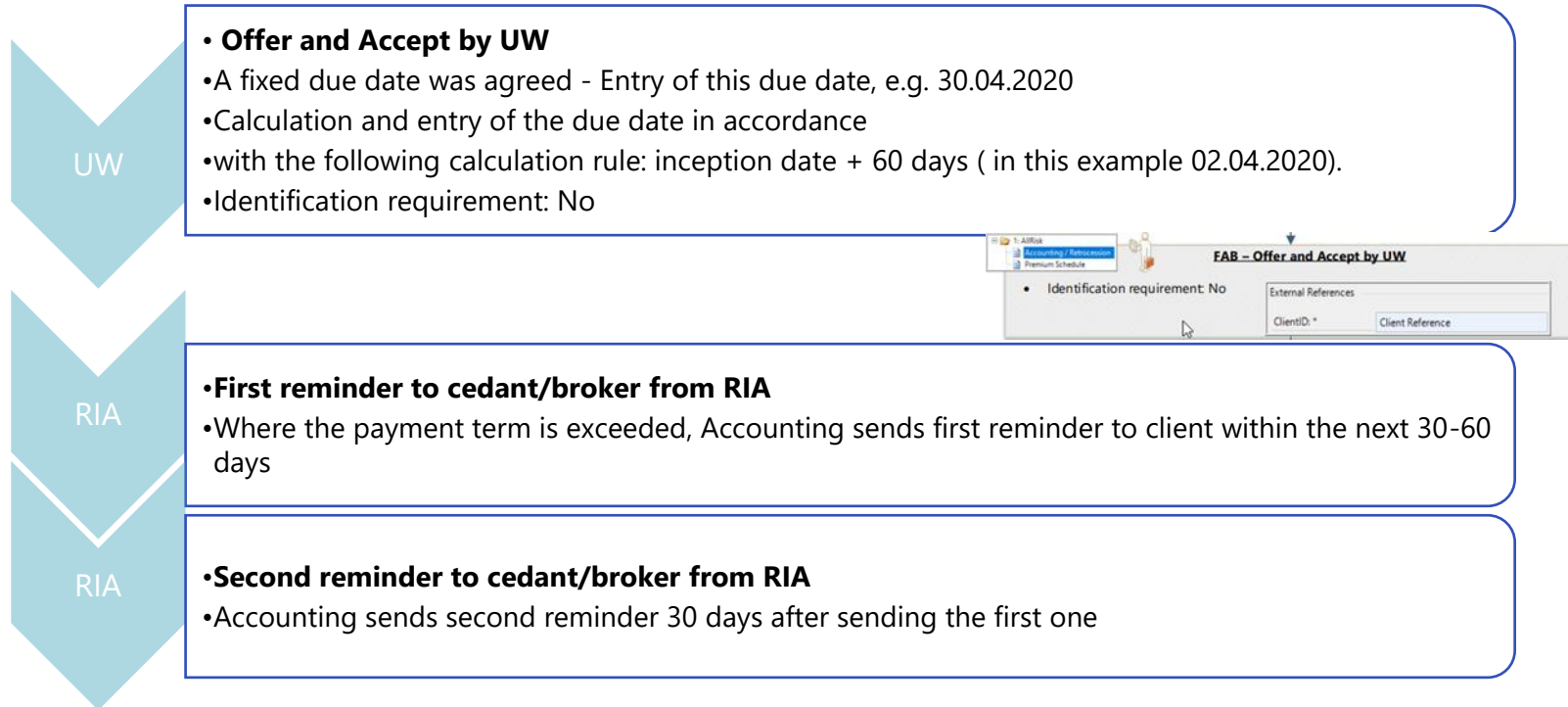
12.2 In respect of non-proportional reinsurance, the Reinsurer reserves the right to participate in the negotiations and settlement of any claim exceeding the priority point.

12.3 No costs, save for costs incurred in connection with the investigating, adjusting, settling, compromising or contesting the validity of any claims which affect the liability of Reinsurers shall be incurred without the prior written consent of the Reinsurer, in each instance.

12.4 Notwithstanding anything to the contrary contained in this Reinsurance Agreement, it is a condition precedent to the Reinsurer's liability that, upon the Reinsurer's request, the Reinsured shall co-operate with the Reinsurer or any person designated by the Reinsurer.

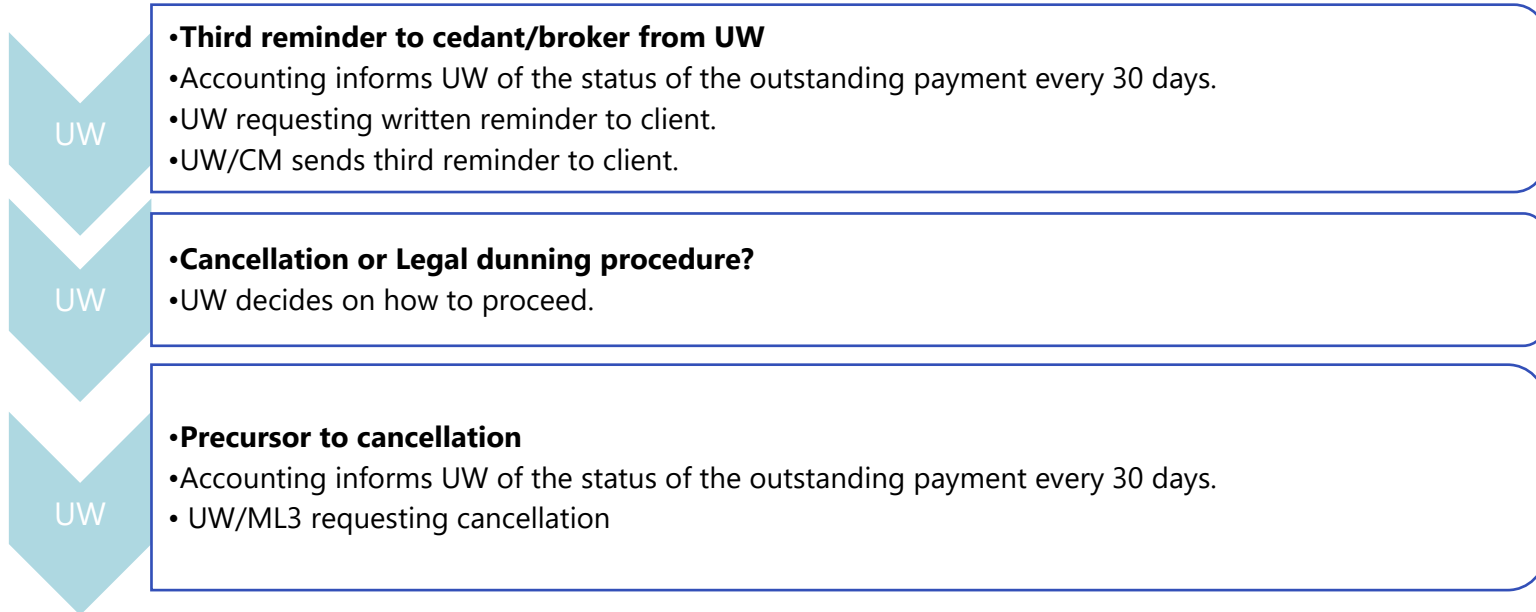
Non-Special Condition

No special agreement was made for cases where the premium is not paid or is not paid on time.



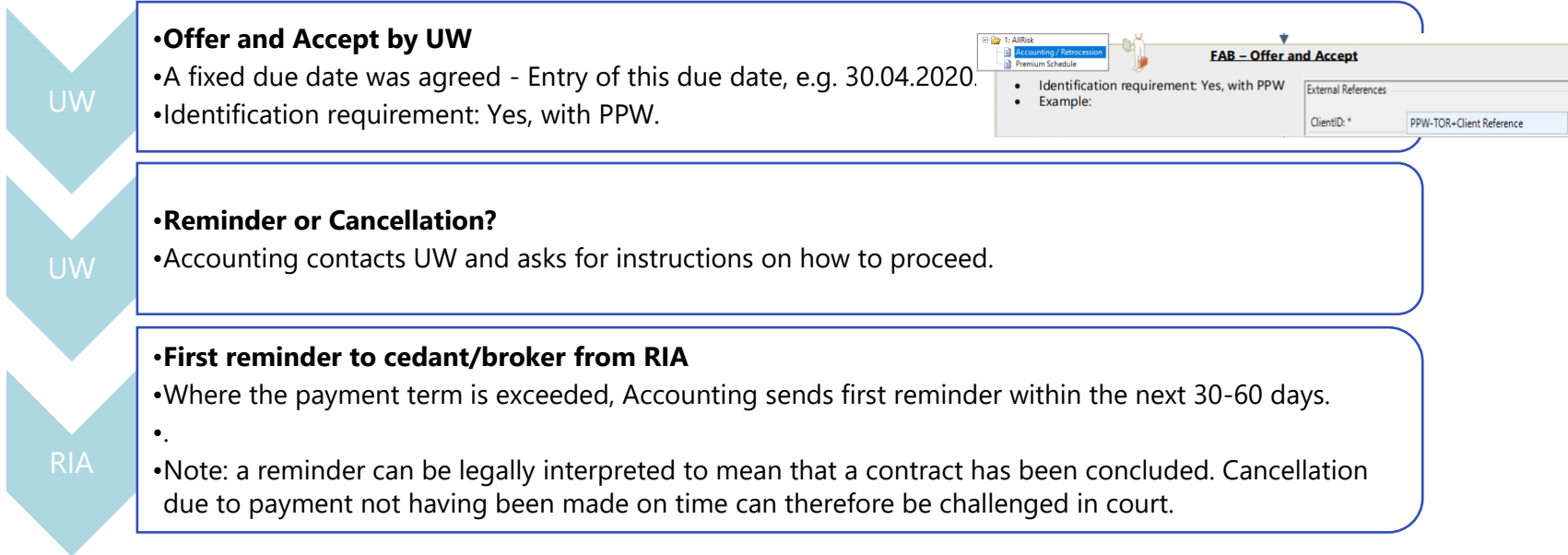
Premium Payment Clause: Non-Special Condition

No special agreement was made for cases where the premium is not paid or is not paid on time.



Premium Payment Clause: TOR (Time on Risk) 4/86-PPW

Contains the payment term for the premium due and gives the reinsurer the right to cancel the risk and demand the pro-rata premium if premium is not made within the payment term



Premium Payment Clause: LSW (London Standard Wording 3000 or 3001 or 3002, etc.) (e.g. 90/30)

Gives the reinsurer the right to cancel the risk and demand the pro-rata premium if payment is not made within the payment term contains the payment term of the premium due (e.g. 90 days from inception of the policy) grants the client a payment deferral up to the final cancellation (e.g. 30 days)

UW

•Offer and Accept by UW

- Field: Due Date
- Example: 90day payment term from inception of the risk (2.12.2019)=Due Date 2.3.2020
- Explanation: the agreed payment deferral is not taken into account when calculating the due date
Identification requirement: Yes with PPW-LSW (number of days after 1st reminder). Example: 90-day payment term + 30-day deferral.

RIA

•First reminder to cedant/broker from RIA

- Where the payment term is exceeded, Accounting sends first reminder within the next 30-60 days.
- System: Accounting enters date of 1st reminder in our system.
- Accounting contacts UW and asks for instructions on how to proceed.

RIA

•Second reminder to cedant/broker from RIA

- Accounting sends second reminder 30 days after sending the first one UW is copied in
- UW and copies in RIA.
- System : Accounting enters date of 2nd reminder



Cancellation by UW

UW sends client notice of cancellation with 14-day payment term and copies in TAU Pool.
Depending on PPC, UW draws attention to pro-rata premium due

UW

- **System-supported handling by UW**

- Accounting informs UW of the status of the outstanding payment every 30 days

UW

- **CASE 1: CANCELLATION**

- Depending on the PPC, underwriter cancels the risk via Part- or Full Cancellation in FAB.
- Underwriter informs accountant of cancellation.

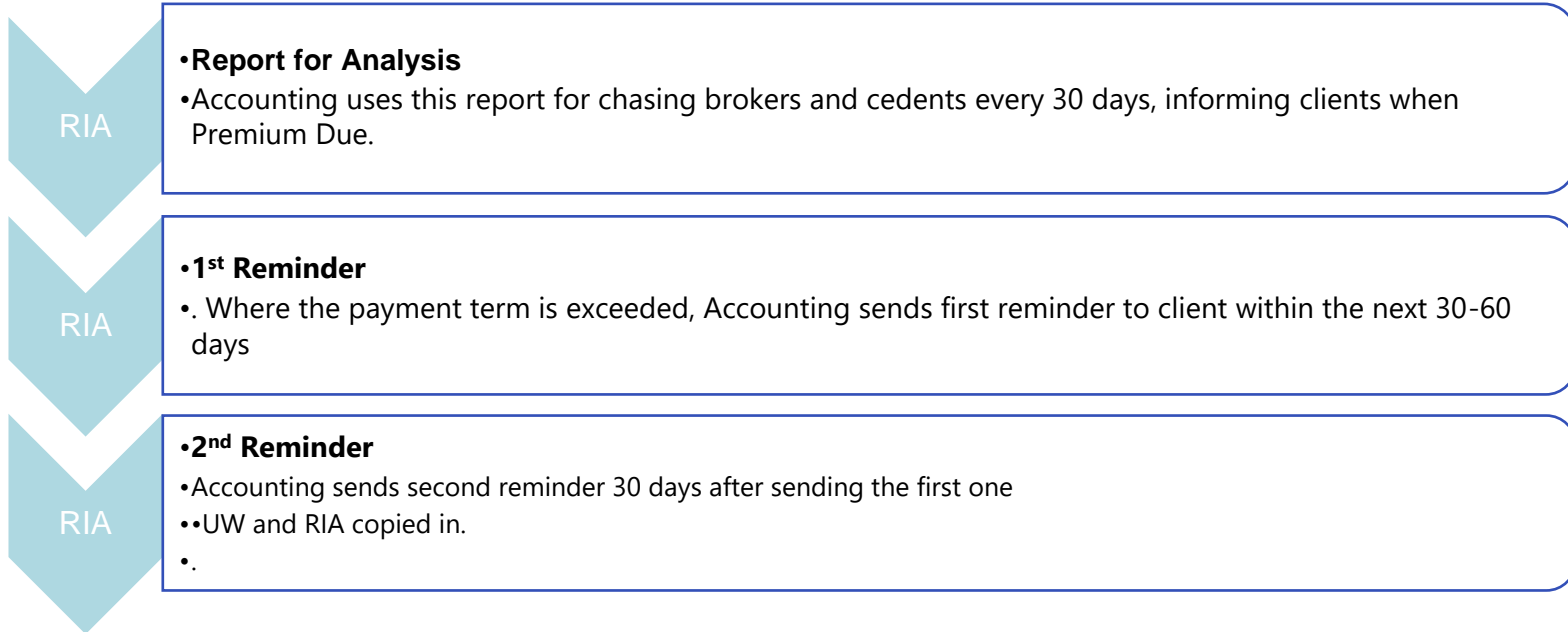
UW

- **CASE 2: LEGAL DUNNING PROCEDURE**

- Underwriter informs about the legal dunning procedure and keeps the accountant in the picture.

Facultative Chasing Process

Facultative Chasing process is done by RIA using the Facultative Chasing Report



Risk Assessment Topics for Single Risks:



Primary Insurance

- Who is the Policy Holder of Single Risk (Reputation)
- Which risks are covered in the Original Policy? With which amount?
- What type of Single Risk is it?



Reinsurance

- Which coverage does the Primary Insurer cede?
- What will be our Participation?
- Which Guidelines apply?

On the following slides you find one slip each for the Lines of Business Property (Fire), Property (Engineering), Casualty and Marine.
Choose one appropriate slip and analyze it.

Policy Holder

Covered Risks
and their TSI

Type of
Single Risk


Reinsurance
coverage

Applicable
Guidelines

MR share

TSI: Total Sum Insured

Example Property Fire – Analyse Slip I

		Nassau  verzekeringen
TYPE:	Facultative Proportional Reinsurance	
PERILS:	Fire, Lightning, Explosion, Aircraft Impact	
REINSURED:	Nassau Verzekering Maatschappij N.V.	
BROKER:	THB European Division, Netherlands	
INSURED:	Unicorn Power B.V.	
SITUATION:	Buurtje 1, 2802 BE, Gouda, The Netherlands	
PERIOD:	1 st January 2011 until 1 st January 2012, 12 h rule. Subject to notice of cancellation at anniversary date which given hereon.	
INTEREST:	All real and personal property of every kind and description of the Insured or for which the Insured has assumed responsibility, extra expenses, costs of reconstruction, costs of debris removal etc. All as per original policy	
SUM INSURED:	EUR	4 000 000 Buildings, cooling tower and tanks (appraised)
	EUR	15 000 000 Inventory/equipment including machinery and installations of the WKC
	EUR	1 000 000 Buildings, inventory/equipment, machinery, installations etc. (not appraised)
	EUR	<u>20 000 000</u> Total Sum Insured
CONDITIONS:	THB Facultative General Conditions 2011. It has been noted and agreed that the Reinsured Perils are limited to Fire, Lightning, Explosion and Aircraft impact as per the description of the original Marsh co-insurance policy. Original policy details, conditions and settlements include: Deductible: EUR 100,000 per occurrence Various sub-limits as per original policy NHT Terrorism exclusion clause	

Example Property Fire – Analyse Slip I

Nassau  verzekeringen

CEDED PREMIUM RATE: 0.95 % estimated premium income EUR 19 000 (100% RI) per annum
BROKERAGE: 5 %
COMMISSION: 20.00 %

INFORMATION:

Unicom Power B.V. is a daughter company of E.ON, a German company.

This is a remotely controlled combined cycle power plant located in Gouda town.

The plant is built at the premises of Uniqema chemical factory, the client of Unicom B.V. Operations started in 1998 through a 15 year contract. Uniqema is supplied by Unicom with electricity steam (HP,LP), compressed air, demineralized water and cooling water.

The plant consists of a gas turbine rated a 5.5 MW, a heat recovery steam generator and two backup steam generators. The plant is operated in function of the steam demand. Electricity in excess is sold to the grid.

A maximum of 60 tons per hour of steam is delivered to the chemical factory.

Cooling water is circulated through two forced circulation towers.

Loss history: 2011: Nil reported losses as at 14th October 2011

MR Share: 50% Client Reference ID: P000142

Premium Schedule: One time premium, due 90 days after inception date

Example Property Engineering – Analyse Slip

Policy Holder: EIFEL-House Luxembourg S.A.
Route D'Esch, 203 L-1471 Luxembourg

Insured: Policy Holder, Constructor, Architects and Engineers, Craftsmen and Sub-contractors

Cedent: HDI N.V.



Section CAR:

Locations and Value of the Works:	Total Sum Insured	€ 72 500 000
Total Construction Period:	34 Months	
Diekirch	€ 40 000 000	Construction Period: 30 Months
Sennberg	€ 8 500 000	Construction Period: 23 Months
Fris	€ 6 000 000	Construction Period: 21 Months
Gasperich	€ 12 000 000	Construction Period: 25 Months
Limpertsberg	€ 6 000 000	Construction Period: 22 Months

Extended Maintenance: 12 Months

Start Date: 1st of January 2011

Debris Removal Costs: 10% of SI

Deductible per Occurrence: € 5 000

Extra charges for overtime, night work, express freight, etc.: 20% per Loss

Loss or Damage due to Strike, Riot and Civil Commotion: € 250 000 per Loss, Ded.: € 5 000

The PML is 70% of the sum insured.

Section TPL:

Sum Insured: 20% of Section MD, max.: € 2 500 000 each and every loss

Maintenance Period covered, Cross Liability included

Deductible: € 1 250

Premium:

Premium rate for construction work: 0,22%

Provisional Premium: € 159 500

The final premium will be adjusted 12 months after the conclusion of the construction period according to the final construction cost reported by the insured.

Commission: 25%

The premium is paid in a lump sum latest 90 days after the inception date.

Example Casualty– Analyse Slip

Facultative Reinsurance – Allianz Policy No.: RD554-337



Policy Holder: Daimler AG, 70546 Stuttgart

Event: Stars & Cars, Saturday, 5th November 2011
Driving Presentation Example Property Fire – Analyz... to historic Race Cars, Live-Music, meet&greet

Location: Stuttgart-Untertürkheim (Area around Mercedes-Benz World)

Target Group: Customers of the Mercedes-Benz Dealership Stuttgart,
VIP Guests, Motorsport-Fans, Sponsors, Press

Sum Insured:	Approx. 30,000 Visitors:	Death	€ 99,000.--
		Disability	€ 155,000.--
	thereof 600 VIPs:	Death	€ 166,000.--
		Disability	€ 288,000.--
	20 Race Drivers (no races)	Death	€ 666,000.--
	(representation only)	Disability	€ 1,999,000.--

The original premium was € 29,900.-- (like discussed). Allianz Share 100%.
A flat accumulation limit of 20 Millions € Death/Disability was agreed.


Munich Re offers 100% Reinsurance Protection with the following conditions:

Limit: € 15 M xs € 5 M Death/Disability in case of accumulation

Reinsurance Premium: € 9,940.--

RI Commission: 25 %

Example Marine– Analyse Slip

	
Policy No:	330/08/37
Risk:	Hull & Machinery
Ceding Company:	ROSSIYA Insurance Company, Moscow, Russia
Broker:	ZARIS Risk Services, Hamburg
Slip Leader:	Swiss Re, Germany
Insured Risk:	Tanker M/V Mahmud Afandi" c/o FGUP "Makhachkalinskij morskoy torgovyy port" Safinat An-Najaat Shipmanagement Company Ltd, <small>Example Casualty – Analyze Slip</small> Vina Caprice, Swallows Street, Kappara SGN 05, Malta as Operator
Area:	Europe and Internal Russian Territory Waters, mainly Caspian Sea
Insurance and RI Period:	24.10.2011 (Moscow Time) – 23.10.2012 (24:00 hrs Moscow time)
Total SI:	USD 17,600,000.00
Rate:	0.324%
Original Deductibles:	USD 50,000.00 each and every accident USD 20,000.00 each and every accident as additional machinery deductible 25 % of total loss amounts and expenditures on each and every accident as additional ice deductible but not less than USD 50,000.00
Gross Share:	100% of total sum insured
Retention:	5,000,000.00 of total sum insured for each and every accident insured within the Marine Treaty Limit
Limit:	USD 12,600,000.00 xs USD 5,000,000.00 for each and every accident.
RI Premium (100 %):	USD 27,100.00
RI Share:	50% of the limit
Total deductions:	10%
Expected Loss:	USD 12,000.00
Vessel Information:	Tanker (Oil) M/V Mahmud Afandi, 2006, Flag: Russia, ISM, DWT 13,000

Thank you for your attention!

March 2023
Priesh Valabh

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