

Proportional Treaty Accounting

04/07/2023
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NOT IF, BUT HOW



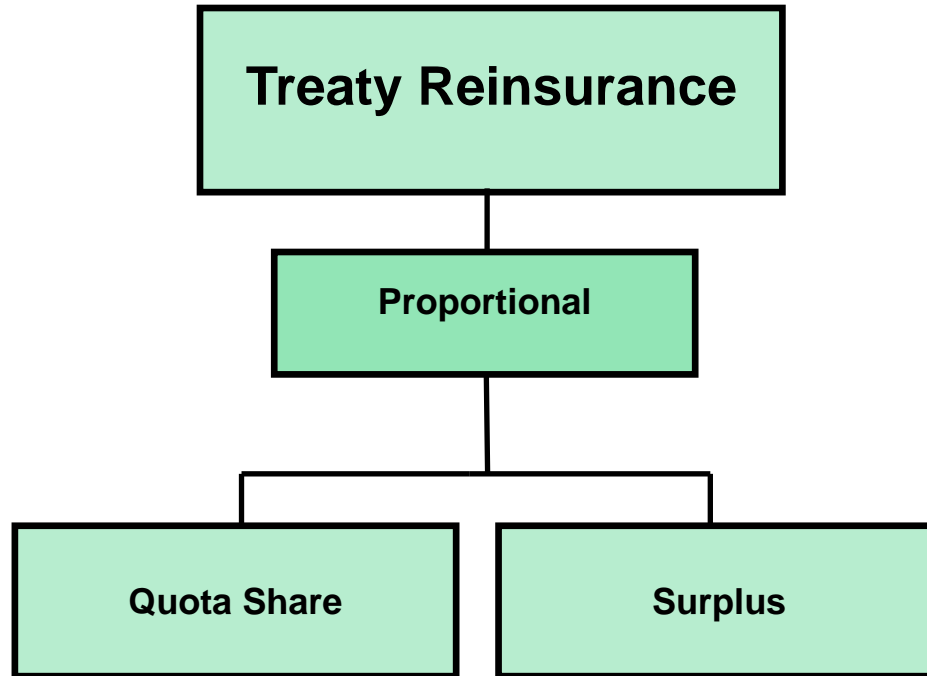
Agenda

1 Rendering of accounts

2 Coverage System

3 Portfolio Conditions

4 Cash Calls



Key treaty **terms** relevant for accounting purposes

RENDERING OF ACCOUNTS			
Premium	Commission & Brokerage	Claims / Cash Call	Outstanding Loss reserves

ACCOUNTING METHODS		
Underwriting year basis	Occurrence year basis	Calendar year basis

ANNUAL ACCOUNTS			
Profit commissions	Sliding Scale Commission	Loss participation	Portfolio entry & withdrawal

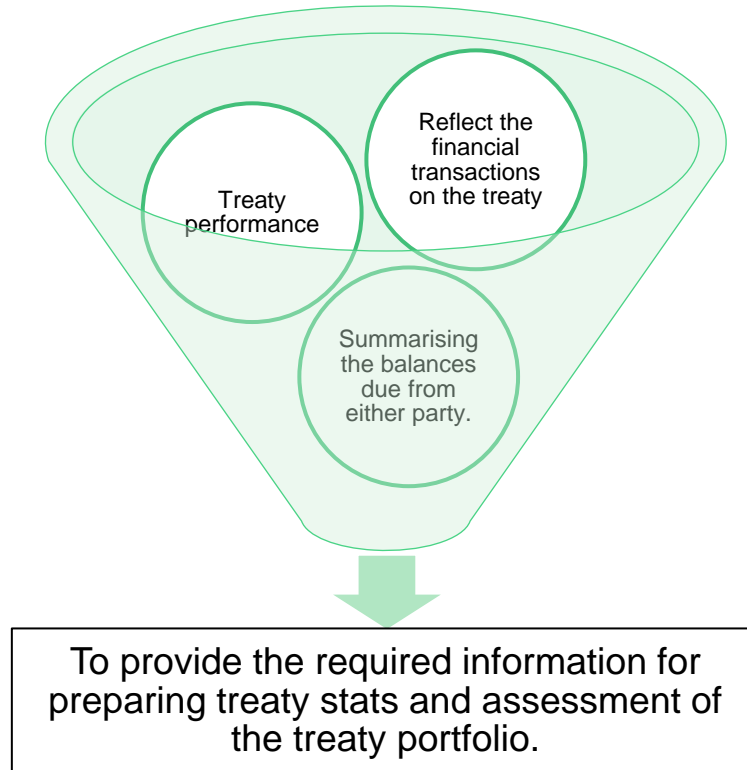


Image: Munich Re

01

Rendering of Accounts

Rendering of Accounts



The contract wording provides precise details of the accounting arrangements

Submission of accounts :

- Quarterly , half-yearly or annually
- Due within 45/60 days after close of each period
- Confirmation & Settlement of accounts
- Relevant items to be included, Class of business, Currency, accounting period, accounting year and signed lines, share.
- SA clients BGR32 compliant invoices submission of accounts

Rendering of Accounts

Technical	Settlement	Financial
<ul style="list-style-type: none">• Premium• Losses• Operating Expenses• O/S Losses	<ul style="list-style-type: none">• Balances due	<ul style="list-style-type: none">• Underwriting results



Image: Munich Re

02

Coverage System

REINSURANCE ACCOUNTING METHODS

Underwriting Year

- Describes the year, in which the policy has been underwritten.

Calendar Year

- Describes the year for which premiums, claims & provisions have been deducted from the cedent.

Occurrence Year

- Describes the year in which a claim occurred or was caused.

Importance of Coverage systems

Coverage systems determine how covered risks are assigned to a Reinsurance policy

Coverage systems are used to determine the allocation premiums in the statement of accounts

As a result one can then identify which losses fall under certain reinsurance contract period

When preparing the annual statements such as Sliding scale commission, and PC's it needs to be clear what format will be used

Coverage System: (Underwriting Year)

Breakdown of all accounting items should be displayed by underwriting year

All premiums and losses occurring under the covered policies are to be allocated to the correct UW year

Accounts for premiums and losses in subsequent years are to be allocated to the original UY.

The longer development periods mean that performance of the reinsurance treaty cannot be seen so quickly

In principle:

- There is no premium and Loss portfolio movements
- Proportional and fixed commission agreements apply per underwriting year.
- Results of each U/W year will be finalized when liabilities for that year have expired

Statement of Account: 2nd Quarter 2021
 Cedant: ABC Insurance PLC
 Reinsurer: Munich Reinsurance of Africa Ltd

- Marine Hull Quota Share Treaty
- Underwriting Year Method
- Currency : USD

2nd Quarter 2021 period ending 30.06.2021			
Description	U/Y	Debit	Credit
Premium Ceded	2021		5,500.00
	2020		4,200.00
	2019		1,150.00
	2018		750.00
Commission (15%)	2021	825.00	
	2020	630.00	
	2019	172.50	
	2018	112.50	
			1,740.00
Paid Losses	2021	680.00	
	2020	1,050.00	
	2019	460.00	
	2018	510.00	
			2,700.00
NET AMOUNT DUE TO YOU			7,160.00

Coverage system: (Occurrence Year)

Breakdown of all accounting items by occurrence year.

All losses paid must be in the years of occurrence/ where the claim was caused.

Traditionally not applied for Prop business

In principle:

- There is premium portfolio movements but no Loss portfolio movements
- Loss reserves as at the end of the reinsurance treaty period go into the Run-off.

Statement of Account: 2nd Quarter 2021
 Cedant: ABC Insurance Company
 Reinsurer: Munich Reinsurance of Africa Ltd

Personal Accident Quota Share Treaty			
Munich Re Share 80%			
Currency : USD			
2nd Quarter 2021 period ending as at 30.06.2021		O/Y = Year of Occurrence	
Description	O/Y	Debit	Credit
Premium Ceded			6,000.00
Less Commission		1,800.00	
Less Paid Losses	2019	1,250.00	
	2018	960.00	
	2017	120.00	
	2016	370.00	
		2,700.00	
NET AMOUNT DUE TO YOU			1,500.00

Coverage system: (Accounting Year)

All accounting items are allocated to the current accounting year.

Works on a portfolio transfer basis.

There is premium and loss portfolio movements

No rendering of accounts in subsequent years for former reinsurance treaty periods

In principle:

- Accounts are concluded after four quarters, no further run off administration
- All result-dependent calculations are to be prepared on an accounting-year basis.

Statement of Account: 2nd Quarter 2021
 Cedant: ABC Insurance Company
 Reinsurer: Munich Reinsurance of Africa Ltd

Fire Surplus		
Calendar Year Method (Munich Re share 80%)		
Currency : USD		
2 nd Quarter 2021 period ending as at 30.06.2021	Calendar Year Method	
Descriptions	Debit	Credit
Premium Ceded		7,500.00
Less Commission (27.50%)	2,062.50	
Less Paid Losses	2,700.00	
NET AMOUNT DUE TO YOU		2,737.50



Image: Munich Re

03

Portfolio Conditions

Premium Portfolio Entry

- The reinsurer receives a portfolio Entry from the Insurer, in return, assumes liability for the policies underwritten in the previous year.

Loss Portfolio Entry

- The reinsurer assumes the previous years loss reserves by receiving a corresponding amount from the cedant for participating in the risk.

Premium Portfolio Withdrawal

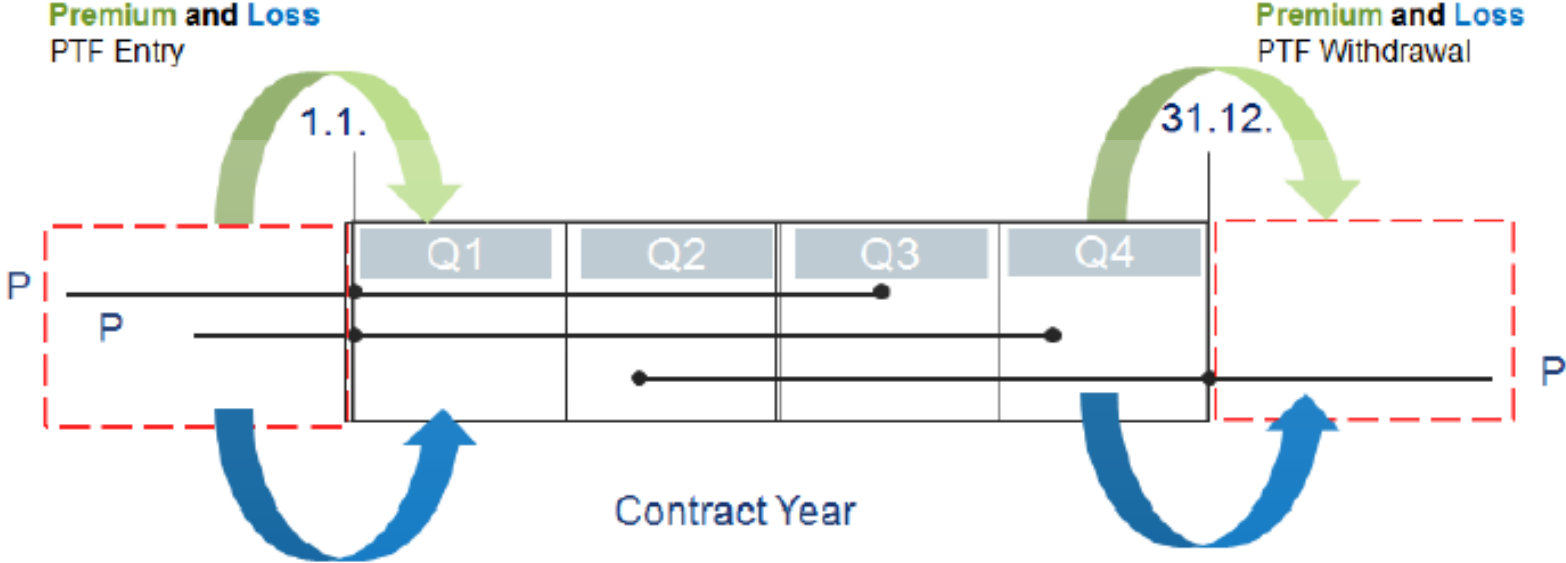
- At the end of the treaty year the reinsurer terminates its liability for policies whose period extend to the next treaty year.

Loss Portfolio Withdrawal

- The reinsurer withdraws from the existing loss reserves by paying its amount to the cedant, usually net of a certain discount,

Portfolio Entry & Withdrawal

Accounting Year



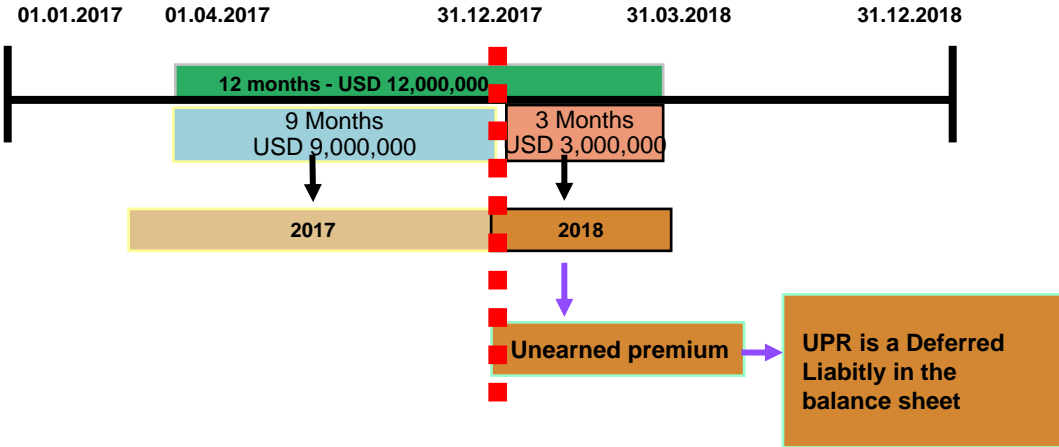
P= Policy period of the cedent

Understand the terms “Earned” and “Unearned”

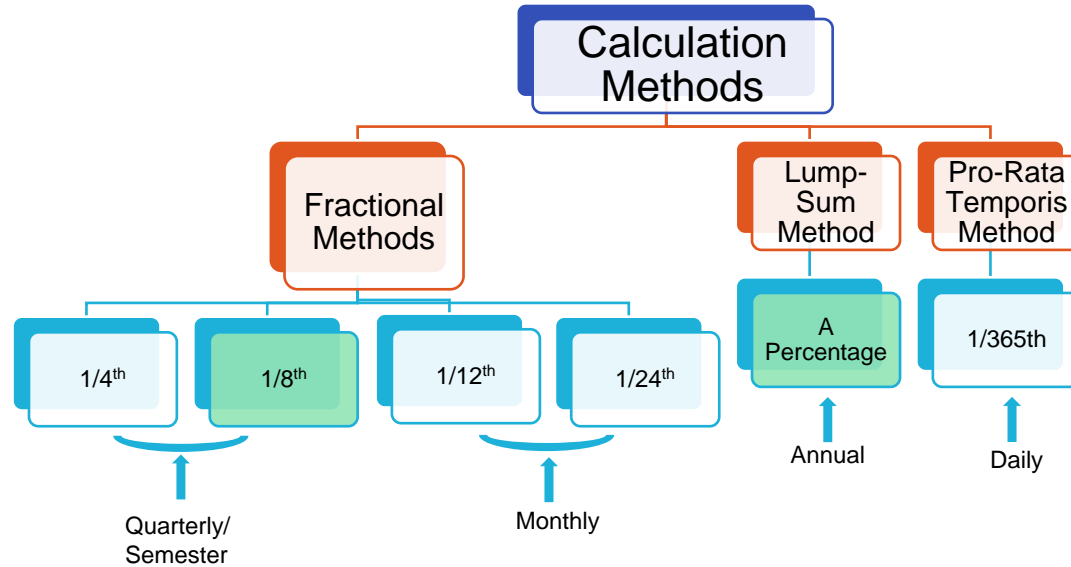
Earned/Unearned Premiums

Term of Policy: 01.04.2017 – 31.03.2018

Premium for 1 year: USD 12,000,000



Methods of Calculation



Portfolio Lump Sum Method

Treaty Condition	
PORTFOLIO WITHDRAWAL & ENTRY	
Premium Portfolio : 40% Net of Commission	Commission ; 20%
Loss Portfolio: 100% of Outstanding Lösses	
Commission	20,000
Outstanding loss reserves at 31.12.2020	50.000
Portfolio Withdrawal	
Premium portfolio (100 000 – 20 000) * 40%	32,000
Loss portfolio (50 000 * 100%)	50,000

One Eights basis to be calculated as follows

- 1 8th of Written Premium Ceded in the 1st Quarter

Plus

- 3 8th of Written Premium Ceded in 2nd Quarter

Plus

- 5 8th of Written Ceded in the 3rd Quarte

Plus

- 7 8th of Written Ceded in the 4th Quarter
- Loss Portfolio calculated 90% or 100% of Outstanding Loss Reserves

Portfolio 1/8th
Method

Portfolio 1/8th Method

**Treaty conditions:
Our share of 70%**

Premium Portfolio is net of 35% commission using the 1/8th Method

Loss Portfolio is 90% of Outstanding Losses

Calculation of Premium portfolio

Gross Premium (our share)	Premium Net Of Comm.	1/8 th method
1 st Quarter 2020 \$ 20,000	13,000	1,625
2 nd Quarter 2020 \$ 16,000	10,400	3,900
3 rd Quarter 2020 \$ 24,000	15,600	9,750
4 th Quarter 2020 \$ 30,000	19,500	17,062.50
Total	\$58,500	\$ 32,337.50

Calculation of Loss portfolio

O/S losses as 31.12	\$ 20 000	
Loss portfolio	20 000* 90%	\$ 18 000

Causes and Consequences of Portfolios

- Change of reinsurer
- Change of reinsurance shares
- Change of insured self retention (change in cession)
- Treaty operating in a clean cut /revenue year basis.
- Cancellation of a treaty

Advantages

- The direct insurer does not have to render accounts for the previous year's reinsurers in respect of premiums & claims occurred
- Profit commission / Sliding scale commissions for a certain treaty year must not be amended in subsequent years.
- Easy to administer

Disadvantages

- Limited practicability.
- For the former reinsurer: profits on loss reserves are realized by the subsequent reinsurer.
- For the subsequent reinsurer: losses on loss reserves are realized by himself.

Dates for Rendering the Accounts

Portfolio withdrawals and entries must take place simultaneously either

- in the last account of the current year (Q4) or
- in the first account of the following year (Q1)

The Portfolio account can have the following design:

- Within the quarterly account or
- in a separate portfolio account at the same time as the regular account





Image: Munich Re

04

Cash Calls

Cash Loss

- A Cash Call/Cash call refund arises mostly in proportional contracts
- The cash payment (CASH CALL) is an advance to the cedant.
- It allows a reinsured to request immediate payment for a large loss without waiting for the quarterly accounts to be due.
- A Cash Call is intended to cushion exceptional burdens on the cedant's liquidity arising from major losses.



Procedures to accept a cash call

- The amount of the loss must exceed a certain limit as specified in the wording.
- All the qualified claims documentation must be provided following the request so as not to delay the cash call payment.
- The claims department will check all the relevant facts, legal assessment and adjusting reports pertaining to the loss.



Time Limit for the Cash call

- Cash call request is a special recall of funds from the reinsured.
- Reinsurer will have to make payment as soon as possible .Usually within 10 working days after receipt of such request.
- Once payment is made the reinsurer then awaits the cash call recovery.

Cash Call Refund

- Cash calls are requested before the end of a current quarter we therefore usually expect the funds to be recovered in that particular current quarter or in the next quarter
- Important to control this, otherwise duplicates may occur.

Cash Loss Example

❖ Fire Quota Share

➤ Treaty Information

- Cash Loss Limit: ZAR 10,000,000 (100%)
- Quarterly Accounts, submitted within 45 days

➤ Cash Loss Information

- Cash loss request dated 12.02.2022 in the amount of ZAR 12,000,000
- Insured Name : Coco Island
- Settlement by Reinsurer on 16.02.2022

➤ Account Information

- Paid Losses in 1st Quarter 2022 : 22,500,000
- Current underwriting year 2022 1st Qtr. 2022

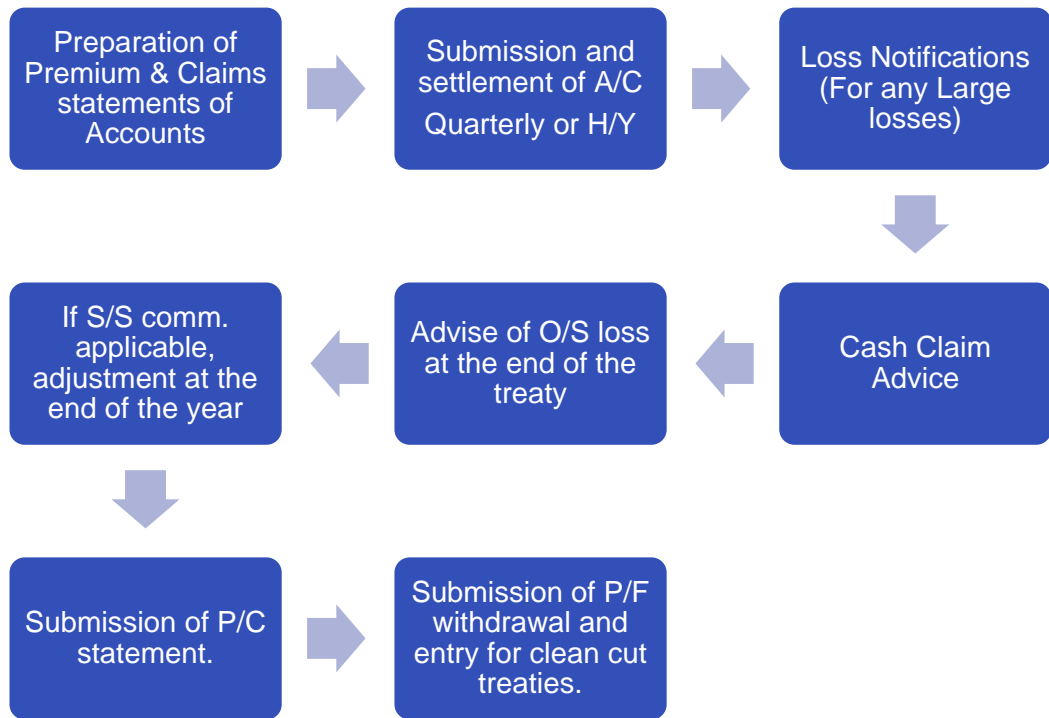
COB : Fire QS UY : 2022	Debit	Credit
Premium		150,000,000
Commission	30,000,000	
Losses Paid	10,500,000	
Cash Loss recovery	12,000,000	
<i>cash loss Refund paid for Coco Island</i>		12,000,000

1. Name any function or purpose for rendering accounts
2. Name the most common coverage systems that can be used for rendering quarterly accounts?
3. Name the most accurate method of calculating premium ?
4. **(True or False)** Occurrence year treaties requires the cedant to render loss portfolio withdrawal
5. **(True or False)** It is standard practice for the Reinsured to submit Run/off accounts on a Calendar year treaty?

Quiz

6. Name any advantage of having portfolio conditions ?
7. Name any disadvantage of having portfolio conditions ?
8. UPR is an asset in the Reinsurers financials, True or False
9. Cash call request is usually applicable to the cedant based on profitability ?
10. **True or False** – A cash call can only be requested quarterly by the cedant? And the refund should be submitted annually ?

Chain of Reinsurance Accounting for prop. treaty



Questions?

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Thank you for your attention!

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