LIMA Programme

Types of Reinsurance

11 September 2023
KL Phala

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NOT IF, BUT HOW

Image: Munich Re

Agenda

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What Is Reinsurance?

01

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What is Reinsurance ?

An agreement between two or more parties:

- The Insurer/cedent, reinsurer and may include and intermediary
- Insurer agrees to transfer/cede a certain portion of their risk to the reinsurer
- Reinsurance is essentially the insurance company’s own insurance

The duration of the agreement :

- Is normally a year with possibility of renewal or extension.
- But the liability shared amongst the parties may extend beyond the duration of the actual contract
- Depending on whether the agreement is on an underwriting or accident year basis

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The costs involved in the agreement :

- Insurer pays for the cost of transferring the risk to the reinsurer
- This cost is likely to be lower than the cost of retaining the risk.
- The price agreed would also cater for the reinsurer’s expenses
- Intermediary costs may be applicable if one is involved..

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Why Reinsure?

Image: Munich Re

02

Why Reinsure?

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Benefits of RI

Improved risk Management

- Lower costs
- Better security
- Improved portfolio diversification
- Better understanding of risks accepted.

Reduction in claim volatility

- Smoother profits
- Reduced Capital requirements
- Room to write more and larger risks

Limitation of large losses arising from

- A single claim on a single risk
- A single event
- Cumulative events
- Geographical and portfolio concentrations of risk.

Capital relieve

- Financially motivated Reinsurance

It may be compulsory

- Domestication laws

Access to Reinsurer’s expertise

- Product design and pricing
- Guidance in setting underwriting policies and claims control
- Wording of insurance contracts
- Capital and Balance sheet management

Image: Munich Re

03

Reinsurance Types

Reinsurance types

Facultative vs Treaty arrangements

Facultative

- Involves a single risk, for each risk the insurer writes
- The Insurer has the option to cede risk to the reinsure .
- The Reinsurer has the option to decline or accept the risk if ceded.
- The terms and conditions have to be negotiated and agreed separately for each risk
- Each risk can be ceded proportionally or non-proportionally

Treaty

- Involves a transfer of portfolio risks, for each risk that meets the agreed treaty requirements
- The Insurer has to cede risk to reinsure .
- The Reinsurer has to accept
- The terms and conditions that have been agreed apply to all risks in the portfolio.
- The treaty can also be proportional or non-proportional

Reinsurance Types

Proportional vs Non Proportional

Proportional

- The reinsurer covers an agreed proportion of each risk , by risk we mean both :
  - Premium
  - And Losses relating to a policy.
- The ceded proportion may be constant (quota share)
- Or vary for each risk (surplus)
- Reinsurer pays insurer commissions
- Risk are ceded on a risk attaching basis or clean cut
- Commissions may be flat or result dependent or a mixture of the two.
- Commissions are to reimburse Insurer for business acquisition costs
- Mostly used to improve capital or solvency position of insurer i.e. to be able to write larger and more risks.

Non-Proportional

- The reinsurer covers claims relating to
  - Large loss from a single policy(treaty and Fac)
  - Large losses a single or cumulative events
  - Aggregation of losses .
- If the loss amount is above an agreed priority
- Insurer pays a agreed Premium
  - A rate of the exposure /premium
  - Minimum and deposit premium is payable
  - Reinstatement premium may be applicable after a loss
  - Final premium may be adjusted in line with the actual exposure .
- Risk are normally ceded on an accident year basis
- Mostly used to smooth results or minimize impact of high impact but low frequency claims

Treaty Structures

04

Image: Munich Re

Treaty Structures

Proportional Treaties

Quota share

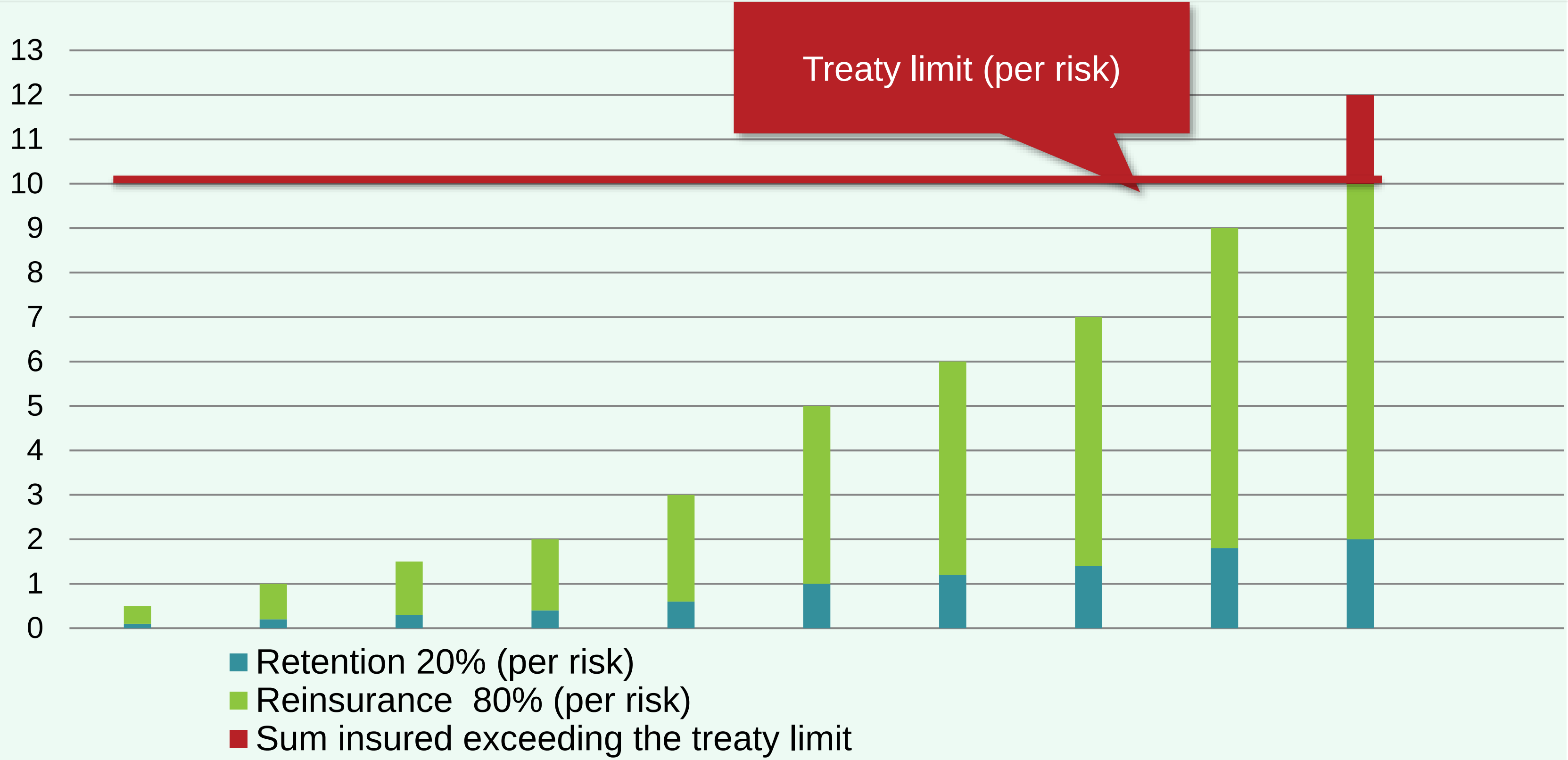
- proportion of cession is the same for all risk in the portfolio treaty
- Treaty has a limit of liability that can be transferred
- Liability above the treaty limit will be covered by the insurer.

Surplus

- The Cession proportion varies for each risk
- The cedent sets a maximum retention amount for each risk(retention line)
- For each risk , the proportion retained by insurer is the retention line over the SI under treaty
- Treaty has a limit of liability that can be transferred(maximum lines)
- Liability above the treaty limit will be covered by insurer

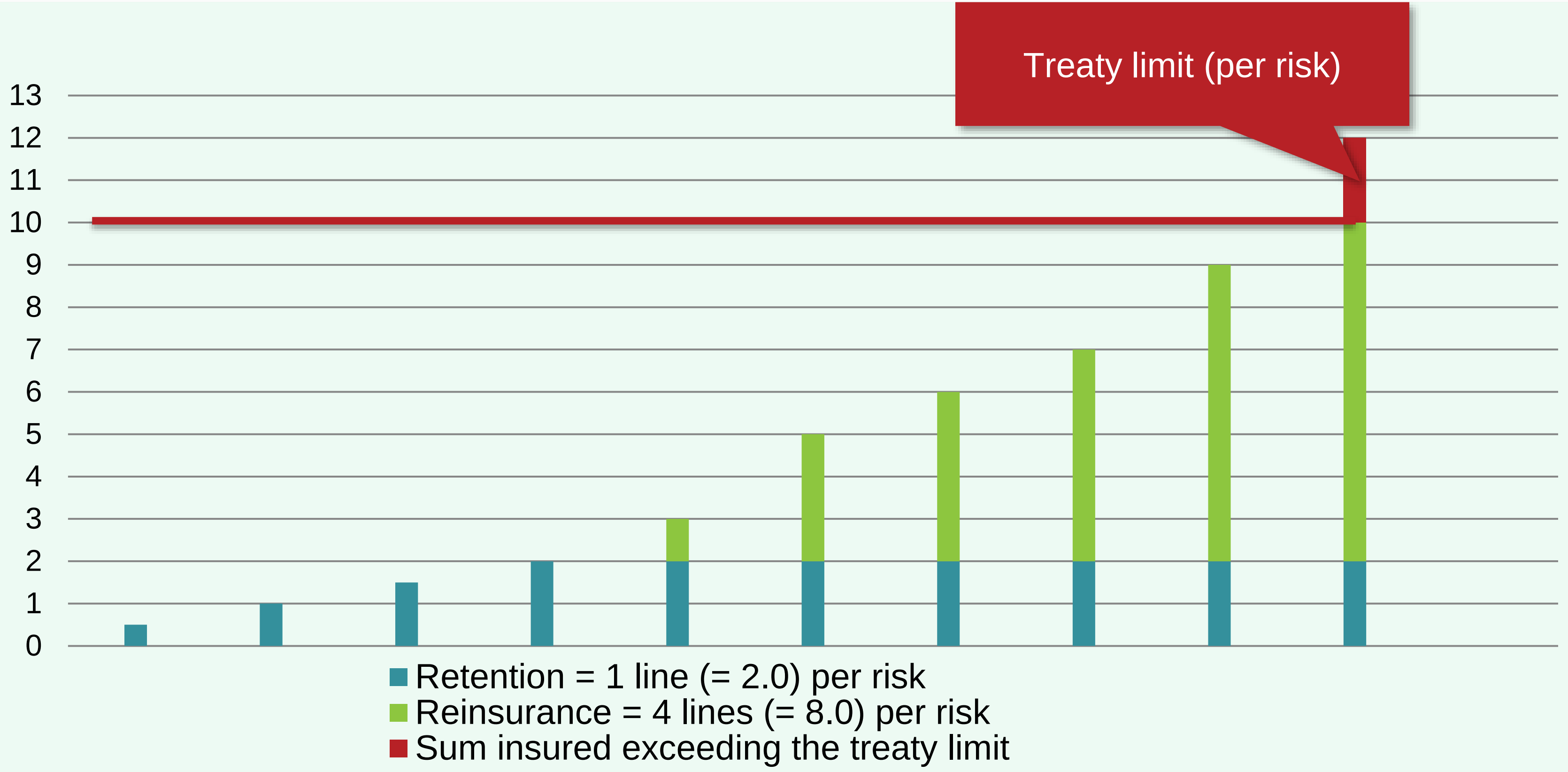
Treaty Structures

Proportional Treaties- Quota share example



Treaty Structures

Proportional Treaties- Surplus example



Treaty Structures

Proportional Treaties : Surplus vs Quota Share

- “Surplus is a variable quota share”
- “The variability in cession of liability increase the risk of anti-selection to the Reinsurer
- Increases insurer’s administration
- Reduced treaty homogeneity
- Increases volatility of treaty results

Treaty Structures

Non-Proportional Treaties

Risk Excess of Loss (Risk XoL)

- Covers large losses affecting one policy.

Cat / Event XoL

- Covers large loss affecting multiple policies caused by a single or multiple events

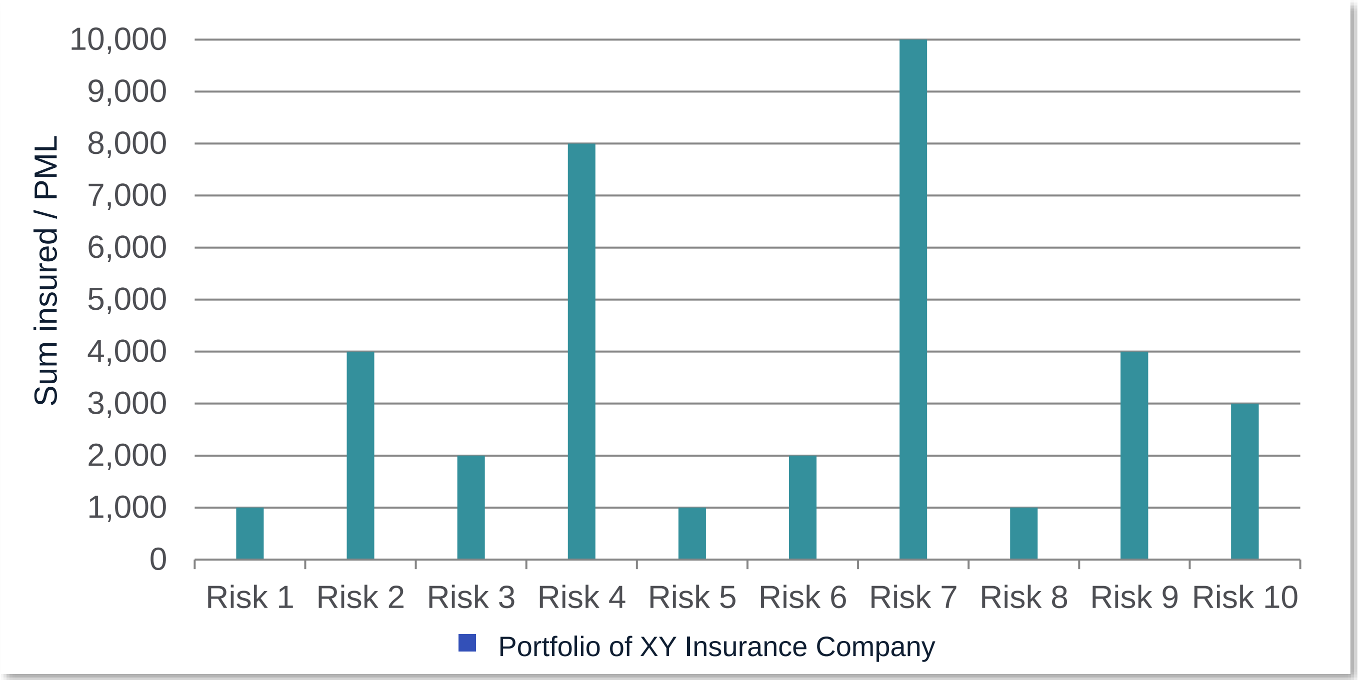
Aggregate XoL

- Covers insurer's aggregated loss during a a defined period which are above their priority
- May aggregate all portfolio or certain types of losses
- Losses affecting multiple policies
- Over a specified period.

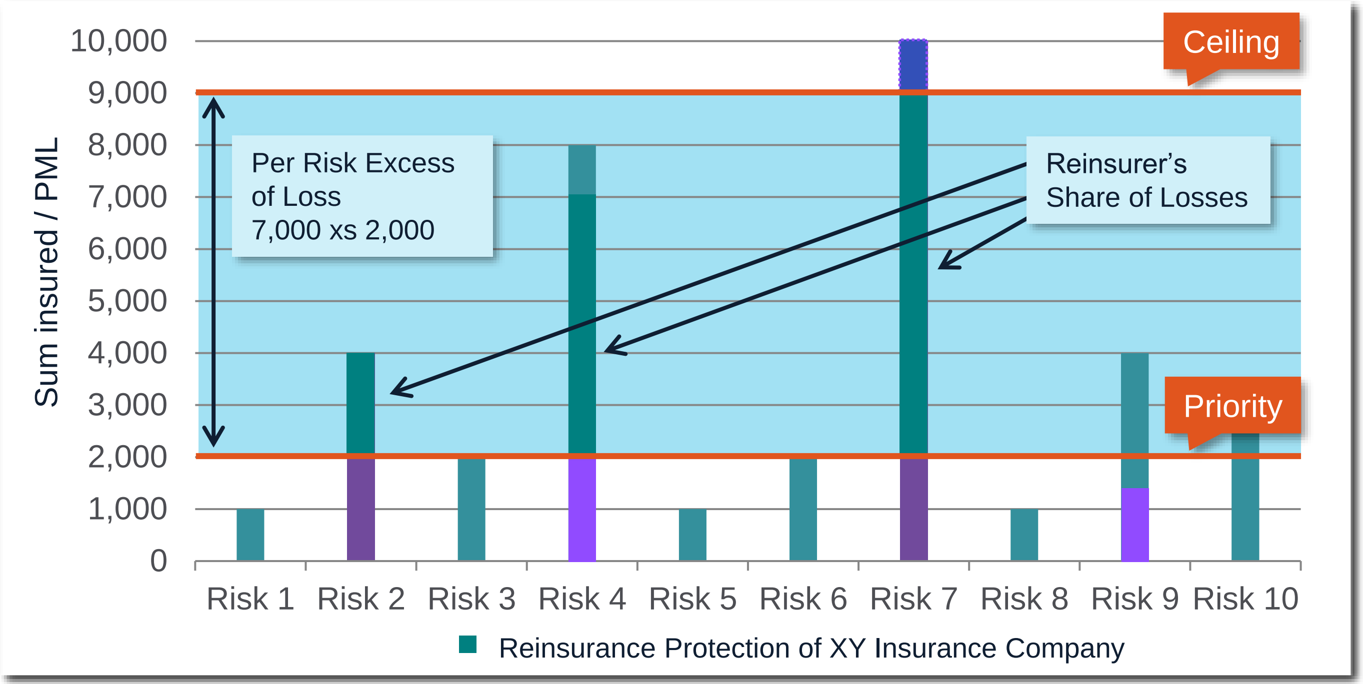
Stop Loss

- Similar to Aggregated XoL
- Protects the profitability of Insurer from accumulation of losses
- Over a defined period

Risk XL Example



Risk XL Example



Event XL Example

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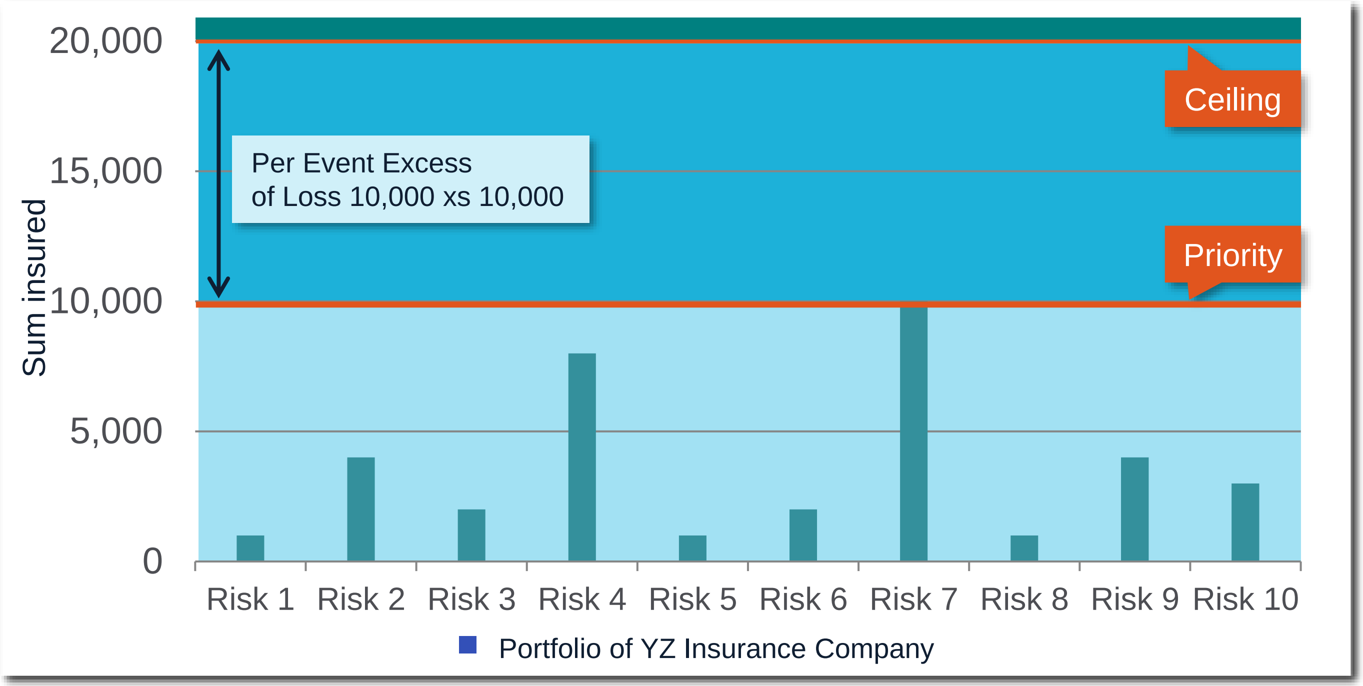
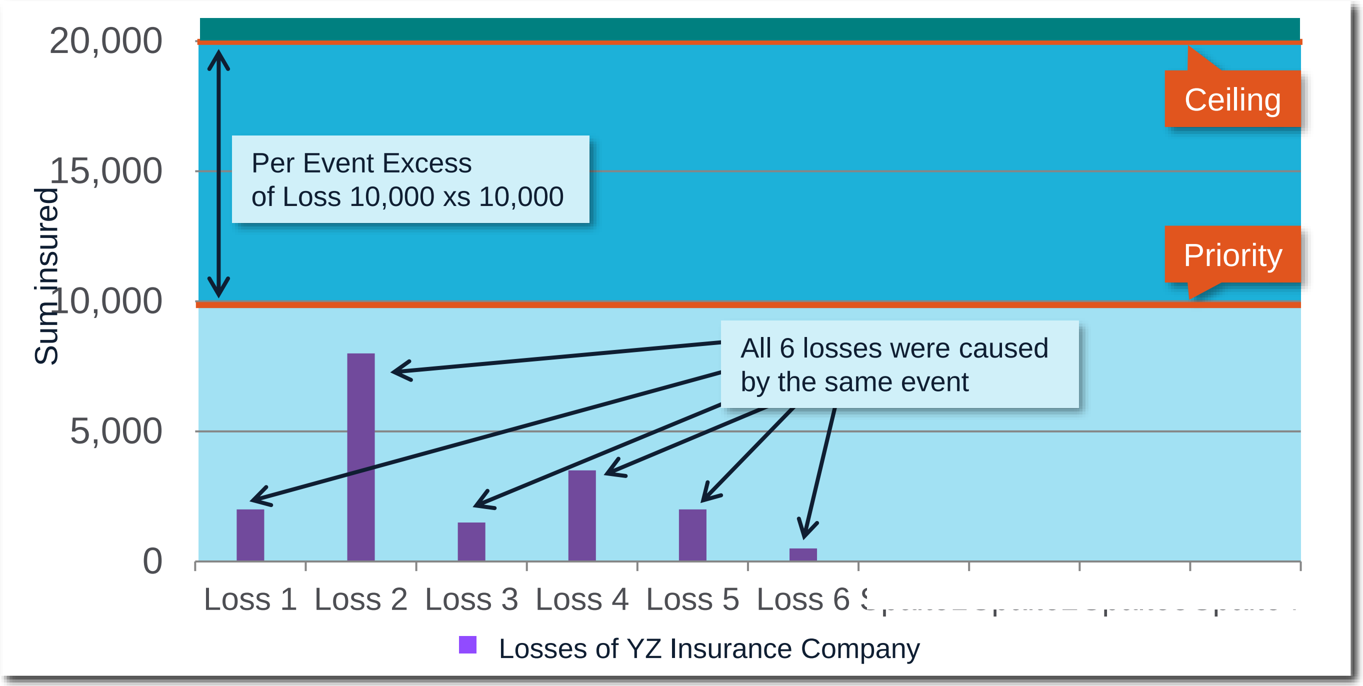


Event XL Example



Event XL Example

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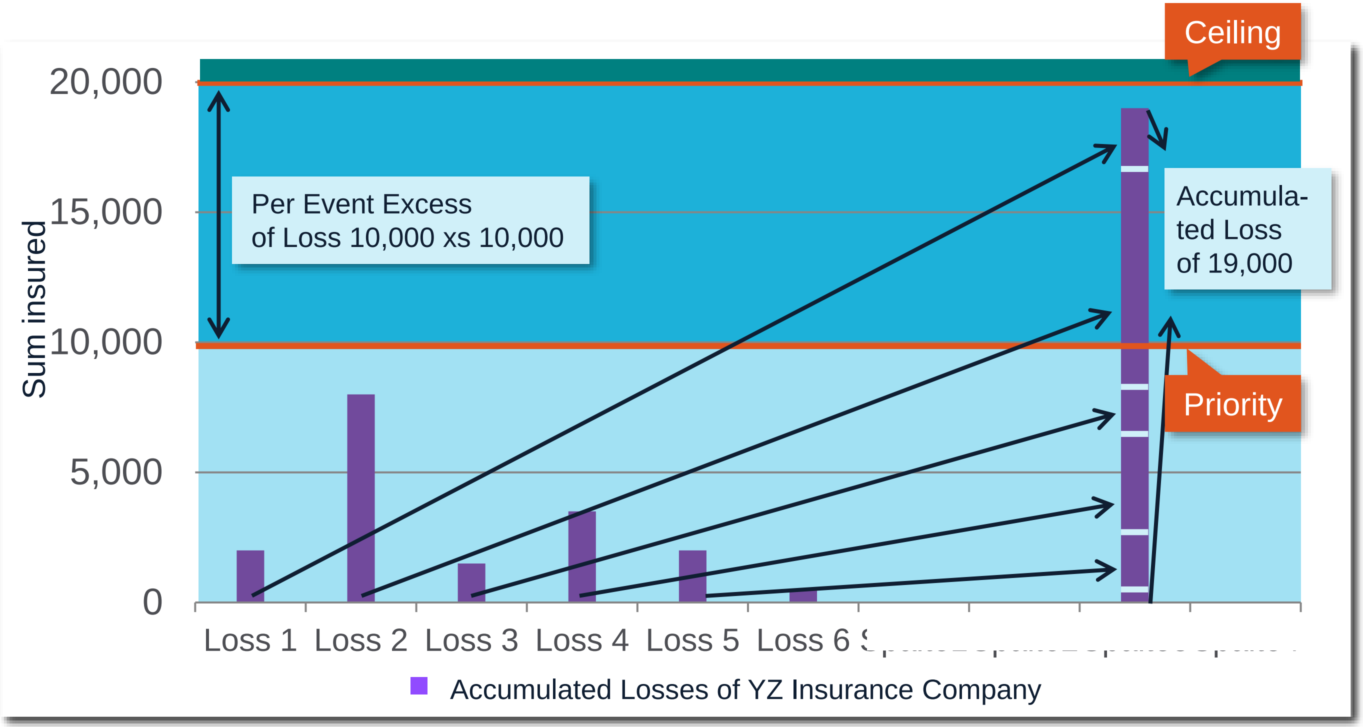

Event XL Example

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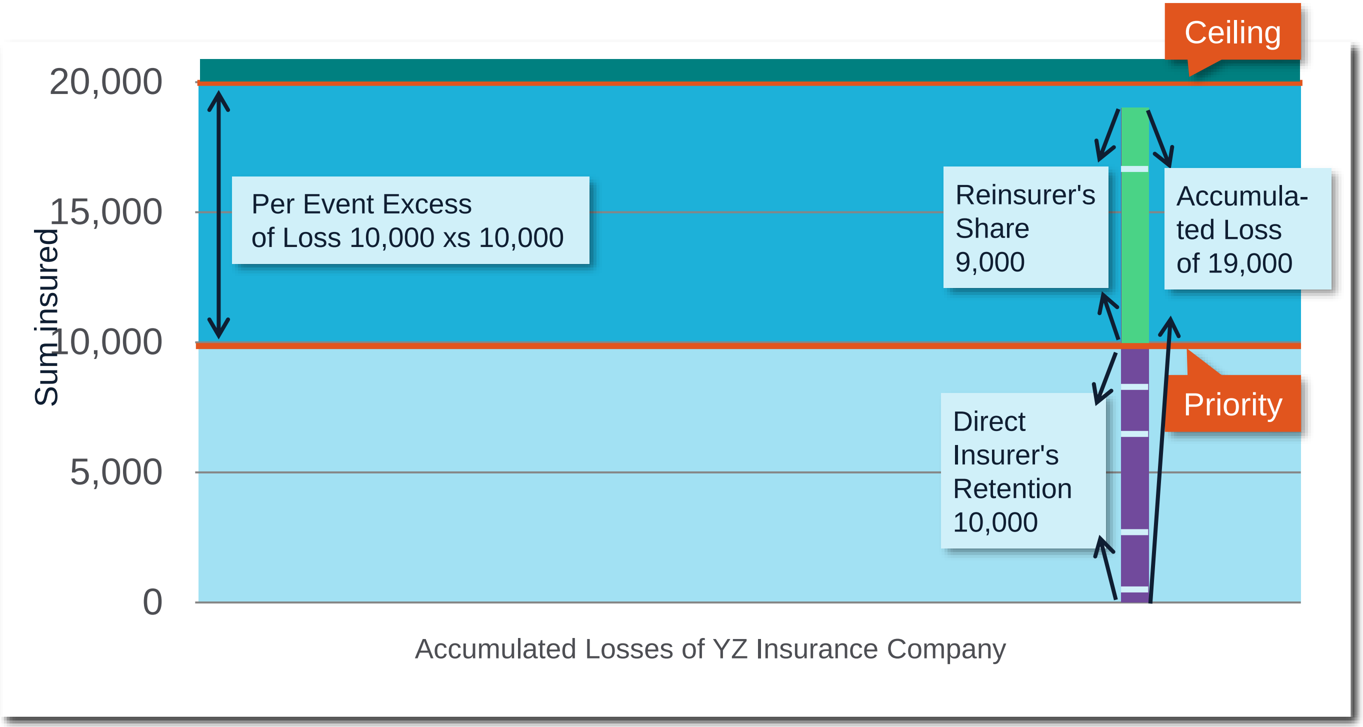

Stop Loss Example

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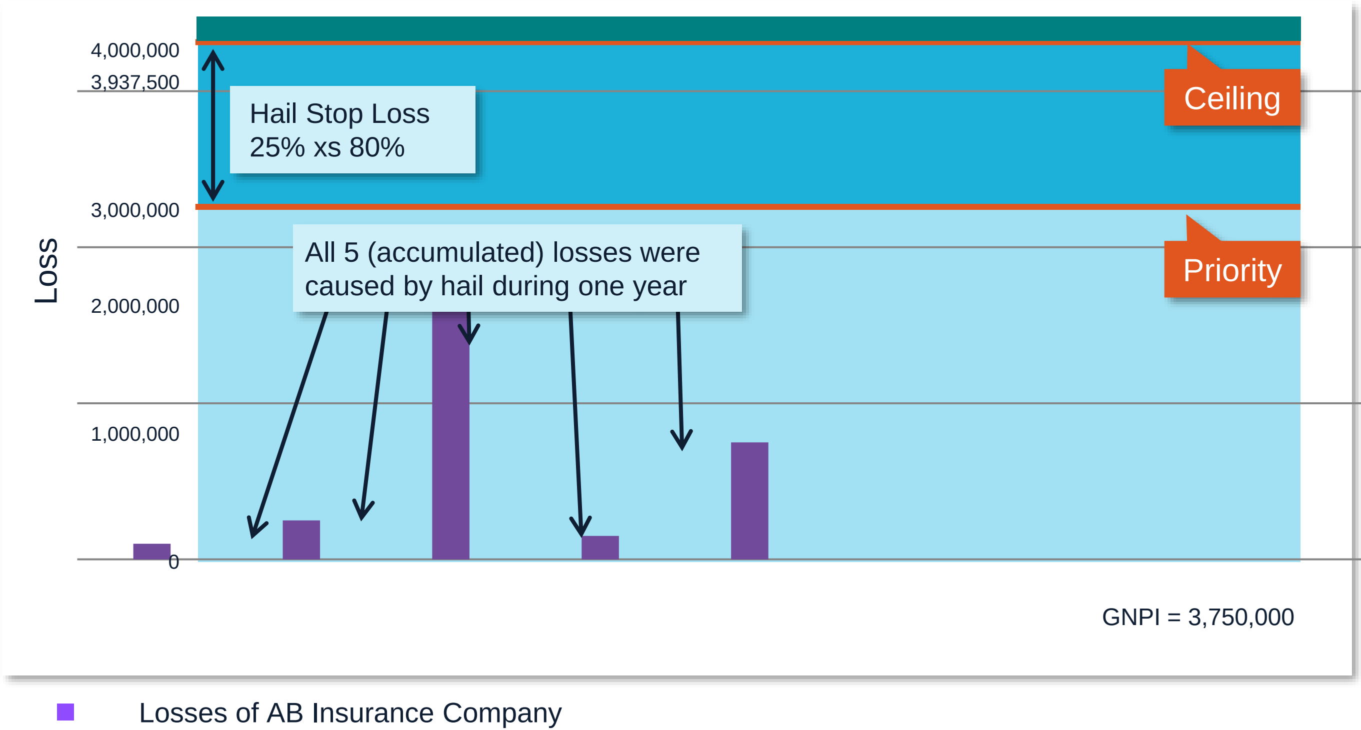

Stop Loss Example

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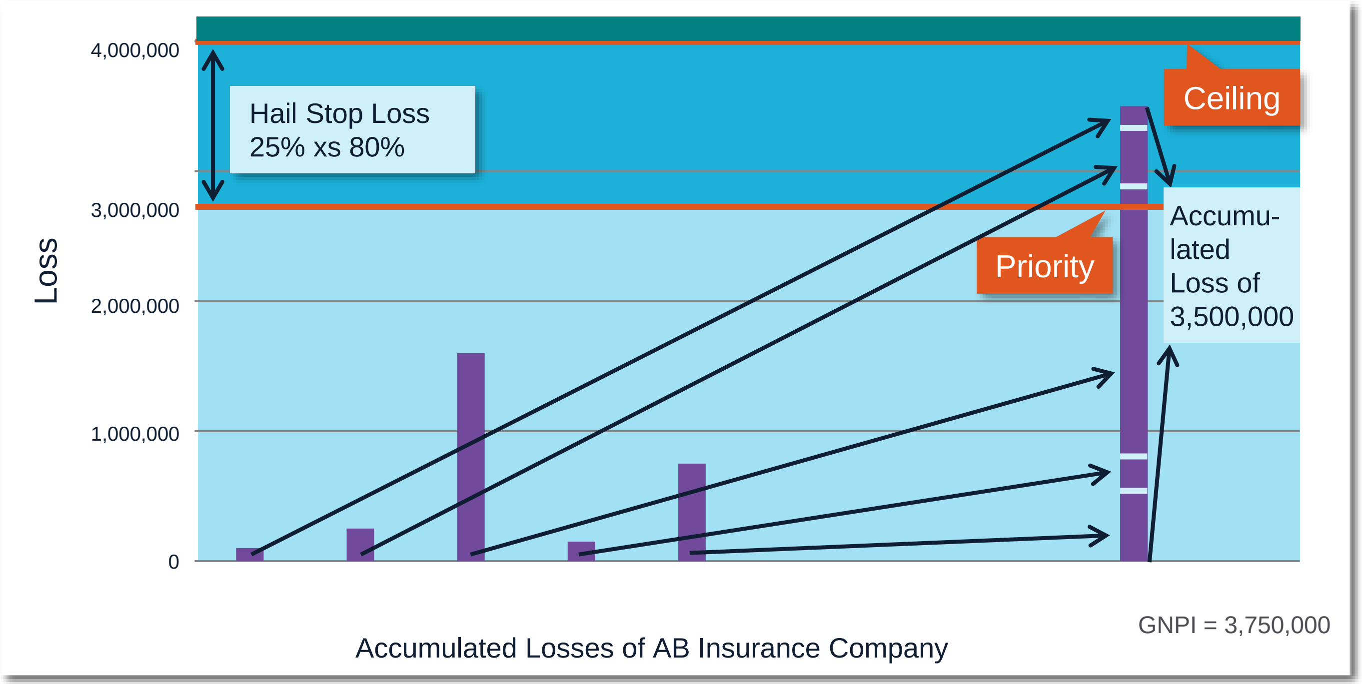
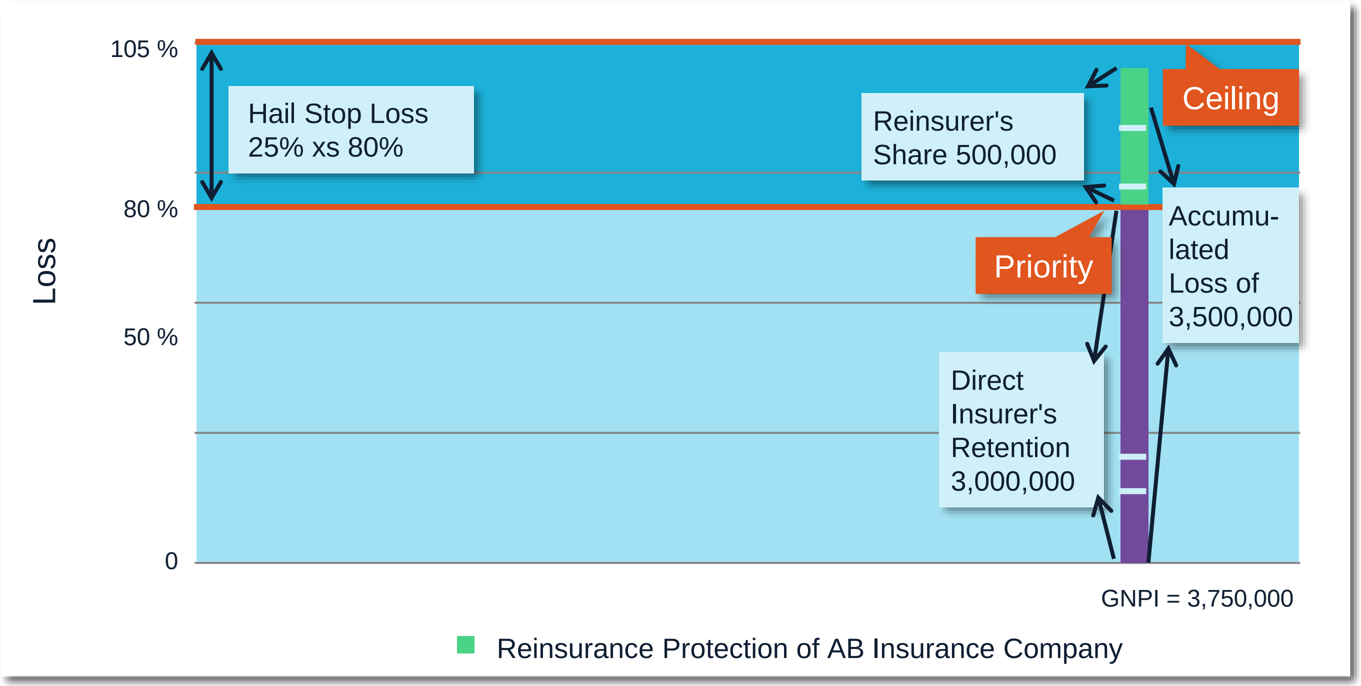


Stop Loss Example



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Q&A

Thank you for your attention!

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