Basics of Reinsurance

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Agenda

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02 Reasons for Reinsurance

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04 Basic Example of Proportional treaty

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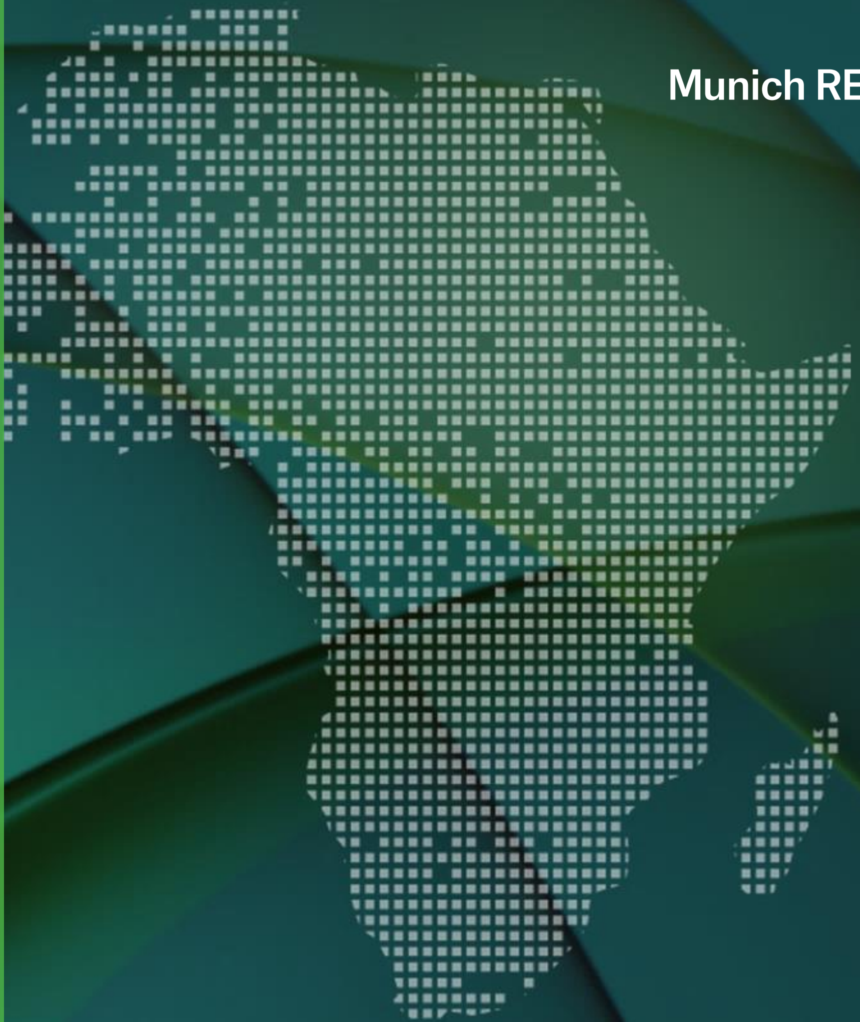
What is Reinsurance



What is Reinsurance

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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

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Uninsurable Risks?

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

Insured

- Individual
- Company
- Seeks indemnity in an event of a loss

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

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Purpose of Reinsurance

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Why would an insurance company take out reinsurance?

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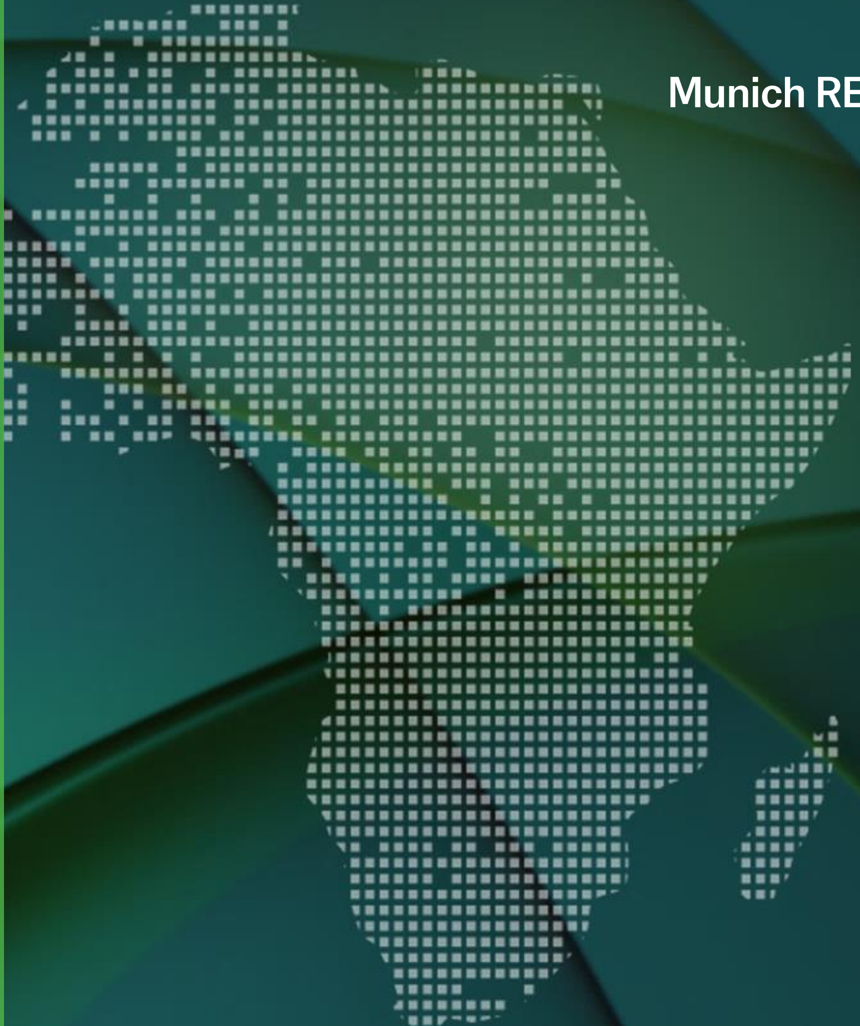

Reasons for Reinsurance

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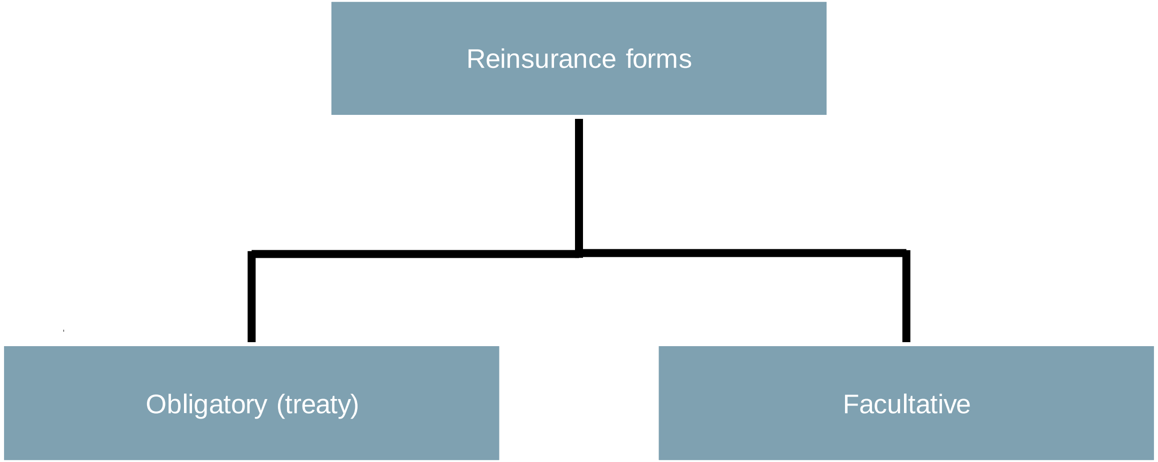
Reinsurance Types

Reinsurance Types



Reinsurance Types – Overview

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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

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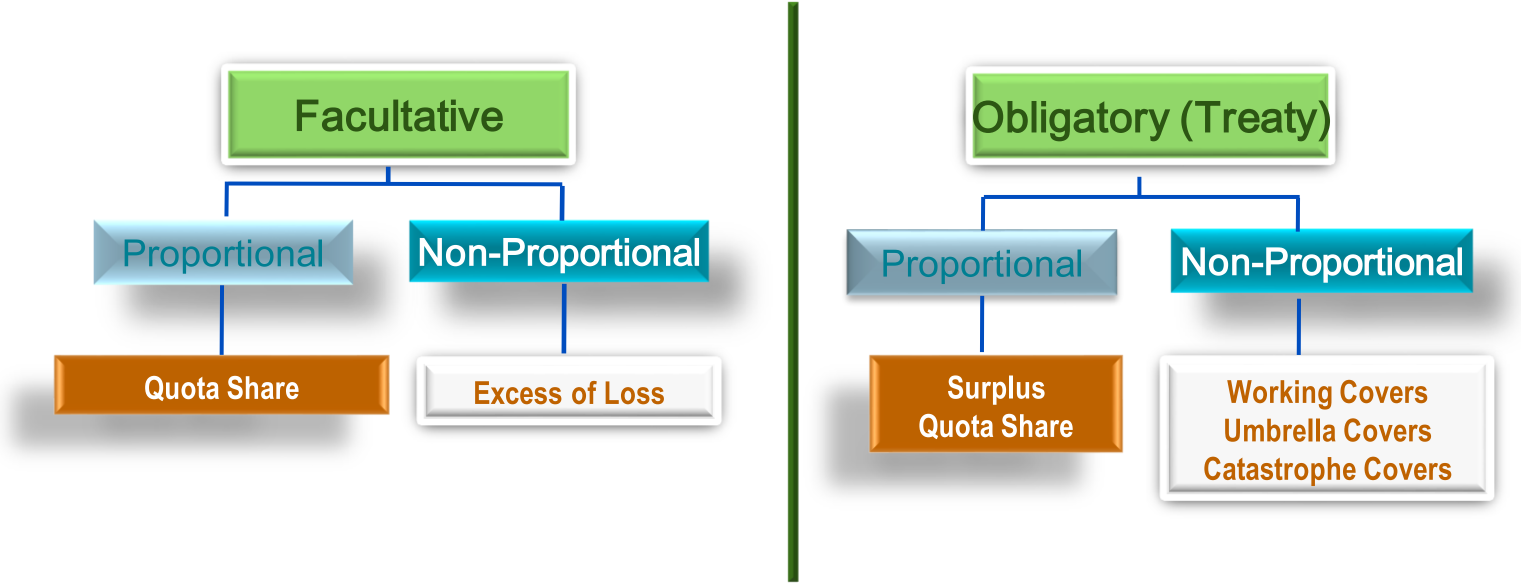

Reinsurance Types - Proportional

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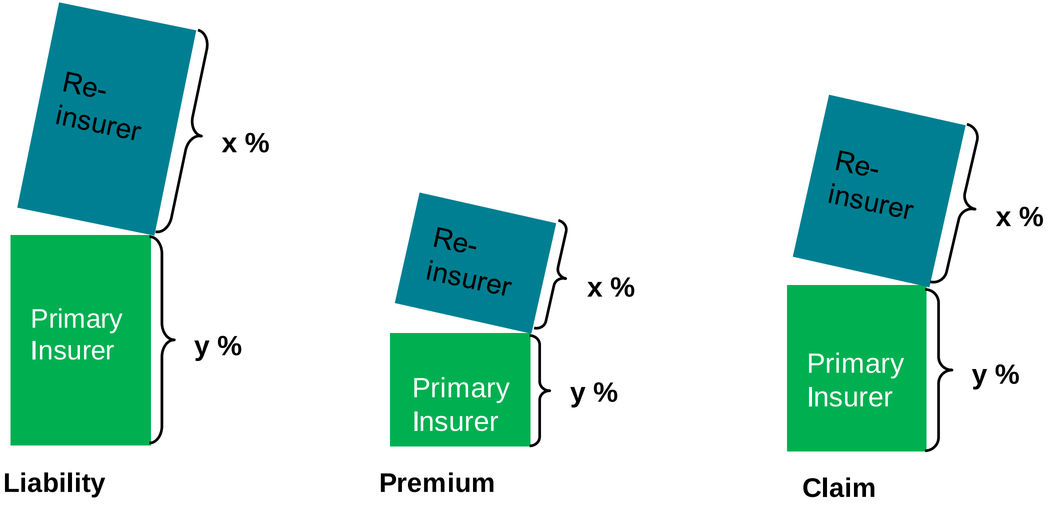
Liability, premium and losses are split proportionally



Reinsurance Types - Proportional

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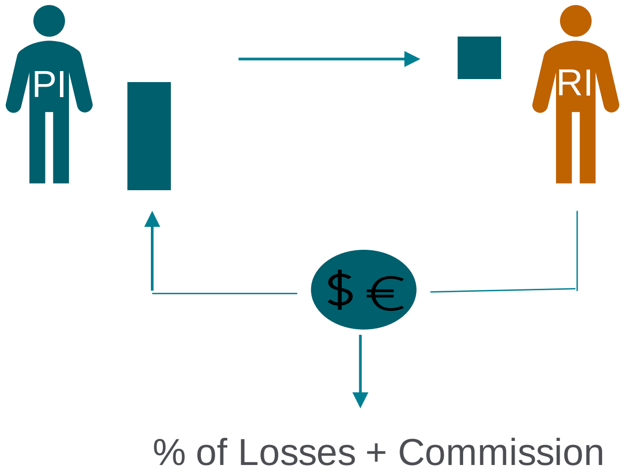
How do they work?

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



Reinsurance Types – Non-Proportional

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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

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Primary Insurer

Primary insurer:

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

Reinsurer

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

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Reinsurance Types – Non-Proportional

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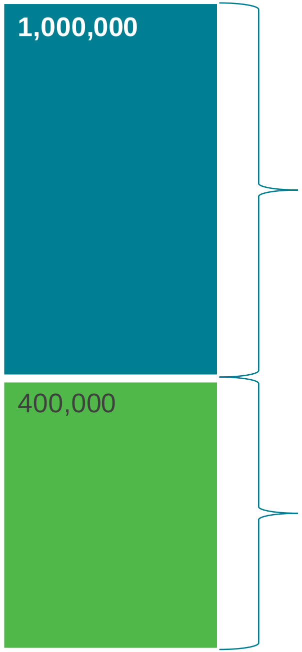
Treaty structure: R 600,000 in excess of R 400,000



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

Priority (paid by Reinsured)

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Basic Example

Basic Example – Quota share

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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

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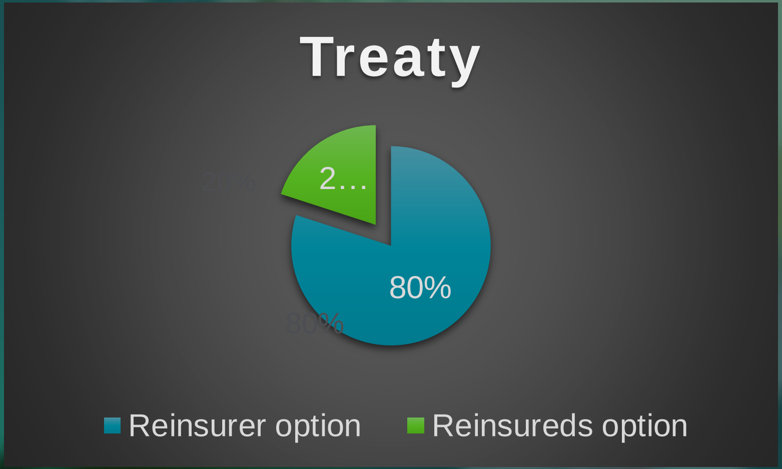
Quota Share
Example

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



Questions!

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Thank you!

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Your feedback matters

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