

# REINSURANCE

# WHAT IS REINSURANCE?

# INSURANCE OF INSURANCE

# WHAT ARE THE FUNCTIONS OF REINSURANCE?

1.PROVIDING UNDERWRITING  
CAPACITY.

# WHAT ARE THE FUNCTIONS OF REINSURANCE?

2. FINANCIAL STABILITY
3. GEOGRAPHICAL SPREAD  
OF RISK

# WHAT ARE THE FUNCTIONS OF REINSURANCE?

## 4. SOLVENCY MARGIN AND OTHER FINANCIAL FEATURES

# REINSURANCE

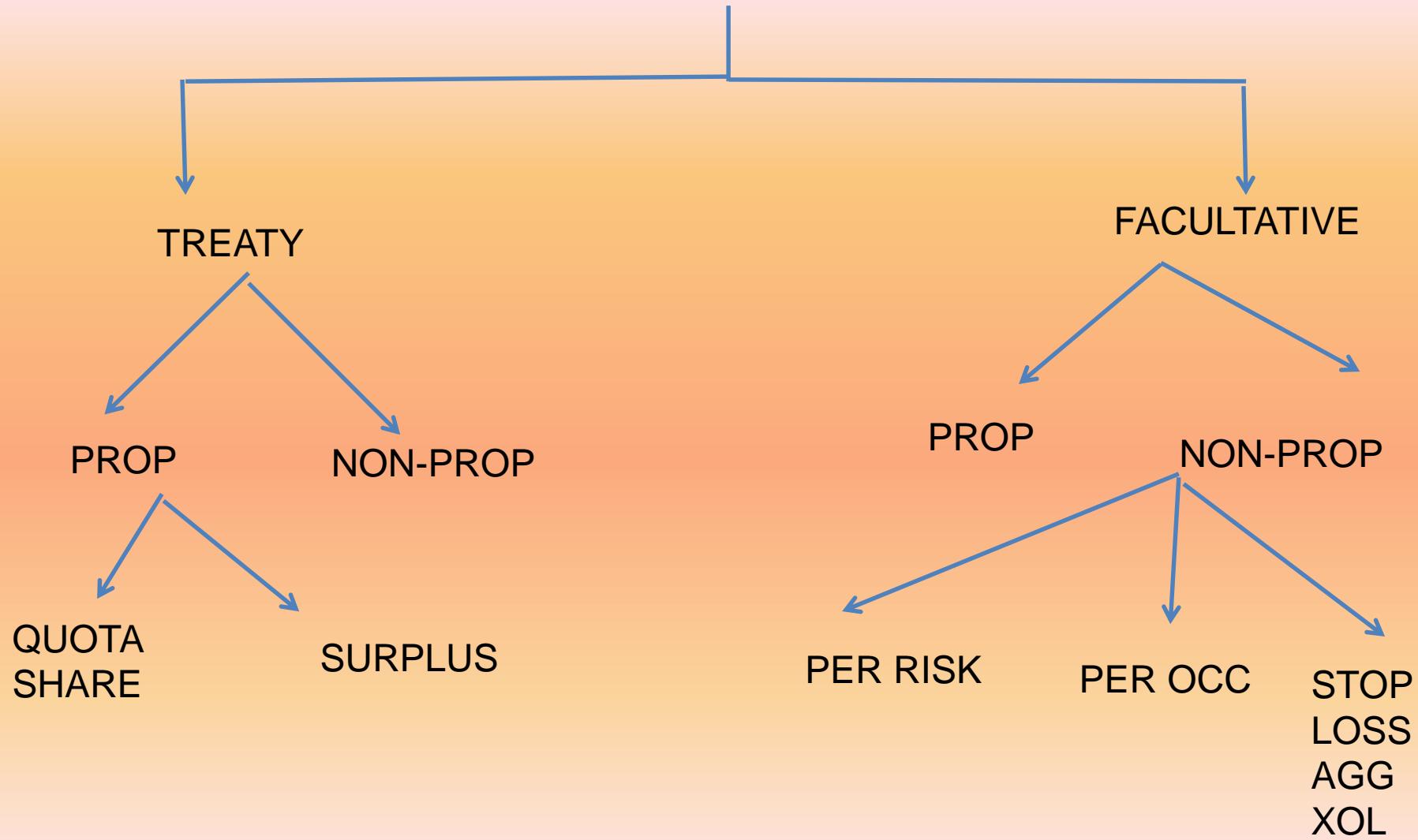
WHAT ARE THE  
METHODS OF  
REINSURANCE

PROPORTIONAL  
REINSURANCE

AND

NON-PROPORTIONAL  
REINSURANCE

# REINSURANCE



# **WHAT IS PROPORTIONAL REINSURANCE?**

**UNDER PROPORTIONAL REINSURANCE,**

**THE SUM INSURED, PREMIUM AND LOSSES**

**IF ANY (IRRESPECTIVE OF THE SIZE OF THE LOSS)**

**ARE SHARED PROPORTIONATELY.**

# **GIVE EXAMPLES FOR PROPORTIONAL REINSURANCE**

**EXAMPLES OF PROPORTIONAL REINSURANCE ::**

- 1. QUOTA SHARE TREATY**
- 2. SURPLUS TREATY**
- 3. FACULTATIVE**
- 4. POOLS ETC.,**

# WHAT IS A QUOTA SHARE TREATY?

- WHERE THE CEDING COMPANY CEDES  
A FIXED PROPORTION OF ALL BUSINESS  
IN A CLASS TO THE REINSURER.

# QUOTA SHARE

- **CEDING INSURER RETAINS 10% OF RISK AND REINSURES 90%**

## EXAMPLE

			RISK I	RISK II	RISK III
SI			500000	5000000	15000000
CEDING INSURER NET	10%	50000	500000	1500000	
CEDED TO REINSURER	90%	450000	4500000	13500000	

# VARIABLE QUOTA SHARE

- **VARIABLE QUOTA SHARE ::**
- IS A METHOD IN WHICH THE % OF RETAINED SUM INSURED VARIES FOR DIFFERENT LIMIT OF SUM INSURED AND REDUCES WITH INCREASE IN LIMIT OF SUM INSURED.

## **QUOTA SHARE & SURPLUS COMBINED - NET LINE AND GROSS LINE**

### **➤ EXAMPLE:**

**QUOTA SHARE TTY LIMIT : INR 100,000 ANY ONE RISK**

**CEDING INSURER RETN : INR 10,000**

**SURPLUS TREATY : (2 OPTIONS : ON GROSS LINE/ON NET LINE )**

**9 NET LINES :  $9 \times 10,000 =$  INR 90,000 ANY ONE RISK**

**9 GROSS LINES:  $9 \times 100,000 =$  INR 900,000 ANY ONE RISK**

## PROPORTIONAL TREATIES

1. UNDER PROP TTY, THE REINSURER'S LIABILITY COMMENCES SIMULTANEOUSLY WITH THAT OF THE CEDING INSURER.
2. UNDERLYING BASIS ::

### **RISK ATTACHING BASIS ::**

THE REINSURER COVERS ONLY THE POLICIES ISSUED OR RENEWED ON OR AFTER THE INCEPTION DATE OF THE TTY AS AGREED WITH THE REINSURER

# **WHAT IS A SURPLUS TREATY?**

**UNDER A SURPLUS TREATY, THE CEDING COMPANY  
REINSURES ONLY THOSE AMOUNTS SURPLUS OF  
ITS OWN NET RETENTION.**

# HOW THE SURPLUS TREATIES ARE ARRANGED?

**A SURPLUS TREATY IS USUALLY ARRANGED  
IN TERMS OF NUMBER OF LINES**

# **WHAT IS A LINE??**

**THE AMOUNT OF RETENTION OF THE DIRECT  
INSURER.**

# SURPLUS TREATY

- The ceding insurer decides what part of the original insurance he wishes to retain for his own account and reinsures (cedes) the balance to the reinsurer.

## Example:

A ceding insurer's max retn may be INR 20,00,000  
On Fire insurances.

Then , the cession to Surplus treaty shall be ::

# SURPLUS TREATY

<b>SUM INSURED</b>	<b>RETENTION</b>	<b>CESSION TO SURPLUS</b>
INR 20,00,000	INR 20,00,000	NIL
INR 30,00,000	INR 20,00,000	INR 10,00,000
INR 50,00,000	INR 20,00,000	INR 30,00,000

# SURPLUS TREATY

➤ SURPLUS TREATIES CAN BE ARRANGED ON ::

- A) SUM INSURED BASIS
- B) PROBABLE MAXIMUM LOSS(PML)

➤ CEDING COMMISSION::

Reinsurer agrees a commission by way of percentage of reinsurance premium given to him, known as Ceding Commission.

➤ OVERRIDING COMMISSION ::

When the premium is CEDED on Original Net Rate(ONR), a small percentage of commission is allowed by the reinsurer.

# SURPLUS TREATY

CEDING COMMISSION ::

A) FLAT RATE OF COMMISSION ::

5% on premium/ 10% on premium.....

B) **SLIDING SCALE OF COMMISSION** ::

THE COMMISSION IS BASED ON THE LOSS RATIO OF THE TREATY .

(Ex)

LOSS RATIO	65% or more	60 < <65	50 < <60	45	40	35	32	30 <32
COMMISION	5	7.5	9	10	12.5	14	15	20

# SURPLUS TREATY

TATA STEELS

5,00,00,00,000

%

1/4/23 TO  
31/3/24

OBLIG	4%	20,00,00,000	4
RETN		50,00,00,000	10
FST	4 LINES	2,00,00,00,000	40
SST	2 LINES	1,00,00,00,000	20
FAC		1,30,00,00,000	26
		5,00,00,00,000	100

## PROP TTY UW ON PML BASIS(EXAMPLE)

- Prestige Insurance uw Fire on PML basis with following automatic capacity::
  1. Net Retention :: INR 20 lakhs PML
  2. Q.S Treaty :: 20% limit with 1 CR PML
  3. F.S.T :: 15 LINES
  4. S.S.T :: 10 LINES

# PROP TTY UW ON PML BASIS(EXAMPLE)

HOW A RISK WITH INR 30 CR SI / PML 40%(12 CR) IS UW::

PML	12,00,00,000	%
OBLIGATORY	48,00,000	4.00%
NET	20,00,000	1.67%
Q.S. 20% (12CR x 20% = 2.4CR). CAP 1CR	1,00,00,000	8.33%
FST 15 LINES(15X20L)	3,00,00,000	25.00%
SST 10 LINES(10X20L)	2,00,00,000	16.67%
FAC	5,32,00,000	44.33%

# PREMIUM AND LOSS PORTFOLIO

- THE PRO RATA PREMIUM APPLICABLE TO THE UNEXPIRED PORTION OF EACH CESSION WOULD HAVE TO BE CALCULATED SEPARATELY.
- IN VIEW OF LARGE NO OF CESSIONS UNDER A TREATY THIS METHOD WOULD INVOLVE CONSIDERABLE EXPENSE AND WORK FOR CEDING INSURER.
- HENCE, THE METHOD ADOPTED IS ::
  - 35% OF PREMIUM CEDED FOR THE YEAR TO BE WITHDRAWN AT THE 4TH QUARTER
  - 90% OF THE CLAIMS OUTSTANDING AS AT 31.3.24 TO BE WITHDRAWN AT THE 4TH QUARTER.

AND

- THE SAME ARE CREDITED DURING THE FIRST QUARTER OF THE NEXT YEAR AS PORTFOLIO PR AND LOSS ENTRIES.

**UNITED INSURANCE CO - FIRE FIRST SURPLUS TREATY**  
**TREATY PERIOD :: 01-04-2023 TO 31-03-2024**

<b>INCOME</b>		
PR DURING the yr	2300000	
PR P/F ENTRY	700000	
LOSS ENTRY	500000	
<b>TOTAL</b>	<b>3500000</b>	
<b>OUTGO</b>		
COMMISSION	575000	25%
CLAIMS PAID	600000	
<b>TOTAL</b>	<b>1175000</b>	
NET PAYABLE TO REINSURERS	23,25,000	
SWISS RE 10%	2,32,500	

**UNITED INSURANCE CO - FIRE FIRST SURPLUS TREATY**  
**TREATY PERIOD :: 01-04-2023 TO 31-03-2024**

**PROFIT COMMISSION :: 3 YRS AVERAGE**

<b>PREMIUM</b>	<b>23,00,000</b>
PR P/F ENTRY	7,00,000
LOSS ENTRY	5,00,000
<b>TOTAL</b>	<b>35,00,000</b>
COMMISSION	5,75,000
CLAIMS PAID	6,00,000
M.E. 2.5%	57,500
PR P/F WD	8,05,000
LOSS P/F WD	6,49,500
<b>TOTAL</b>	<b>26,87,000</b>
PROFIT 23-24	8,13,000
LOSS 22-23	1,00,000
PROFIT 21-22	1,25,000
AVERAGE PROFIT	2,79,333
PROFIT COMMN 20%	55,867

**UNITED INSURANCE CO - FIRE FIRST SURPLUS TREATY**  
**TREATY PERIOD :: 01-04-2023 TO 31-03-2024**

**PROFIT COMMISSION :: LCF EXTINCTION**

<b>PREMIUM</b>	<b>23,00,000</b>
PR P/F ENTRY	7,00,000
LOSS ENTRY	5,00,000
<b>TOTAL</b>	<b>35,00,000</b>
COMMISSION	5,75,000
CLAIMS PAID	6,00,000
M.E. 2.5%	57,500
PR P/F WD	8,05,000
LOSS P/F WD	6,49,500
<b>TOTAL</b>	<b>26,87,000</b>
PROFIT 23-24	8,13,000
LOSS 22-23	1,00,000
PROFIT 21-22	1,25,000
PROFIT	8,38,000
PROFIT COMMN 20%	1,67,600

# WHAT IS FAC?

THE SYSTEM BY WHICH EACH OFFER OF REINSURANCE  
IS CONSIDERED INDIVIDUALLY BY THE REINSURER  
AND EITHER ACCEPTED OR DECLINED.

# **WHAT IS A POOL?**

**A POOL IS A FORM OF REINSURANCE ARRANGEMENT  
BETWEEN MEMBER COMPANIES BY WHICH ONE OR  
MORE CLASSES OF BUSINESS IS POOLED AND THEN  
RETROCEDED TO MEMBERS IN AN AGREED  
PROPORTION OF VOLUME OF BUSINESS CEDED.**

# **WHAT IS NON – PROP REINSURANCE?**

**A FORM OF REINSURANCE WHEREBY THE DIRECT**

**INSURER LIMIT THE AMOUNT THAT HE IS**

**PREPARED TO LOSE AS A RESULT OF ANY ONE EVENT**

**ON THE CLASS OR CLASSES OF BUSINESS CONCERNED**

**AND THEN ARRANGES, REINSURANCE UPTO A**

**SPECIFIED LIMIT.(EX. 300 Xs 15CR)**

# **GIVE EXAMPLES OF NON – PROP REINSURANCE**

- 1. EXCESS OF LOSS COVER**
- 2. STOP LOSS COVER**
- 3. TOP AND DROP COVER**

# EXPLAIN EXCESS OF LOSS(XL) COVERS

**1. PER RISK COVER**

&

**1. PER EVENT COVER**

# WHAT IS A “PER RISK” COVER?

- HERE, THE REINSURER WILL PAY ANY LOSS ON AN

**INDIVIDUAL RISK**

**IN EXCESS OF THE CEDING COMPANY’S LOSS RETENTION.**

# **WHAT IS A “PER EVENT” COVER??**

**(ALSO KNOWN AS CAT COVER/CAT XL) PROTECT**

**THE CEDING COMPANY**

**FROM VERY LARGE LOSSES ARISING OUT OF**

**EVENTS SUCH AS FLOOD, EQ , CYCLONE ETC.,**

# WHAT IS LAYERING?

LAYERING IS A TERM USED TO DESCRIBE THE DIVISION  
OF XL PROTECTION SOUGHT IN A NO. OF LAYERS  
WHICH USUALLY OPERATE CONSECUTIVELY ONE  
ON TOP OF THE OTHER IN THE EVENT OF A HEAVY LOSS.

(ex) LAYER I : 50 Xs 15  
LAYER II : 40 Xs 65  
LAYER III : 60 Xs 105

# WHAT IS LOD?

GENERALLY, XL COVERS ARE ARRANGED ON LOD BASIS  
(I.E, LOSSES OCCURRING DURING BASIS) , WHERE IF ANY  
LOSS OCCURS DURING THE SPECIFIED PERIOD, IT WILL  
FALL WITHIN THE SCOPE OF THE CONTRACT THOUGH  
THE POLICIES UNDER WHICH SUCH LOSSES ARISE  
MAY HAVE INCEPTED PRIOR TO THE DATE OF  
COMMENCEMENT OF XL COVER.

# WHAT IS STOP LOSS COVER?

- THE LOSS RATIO OF THE CEDING COMPANY IS STOPPED AT AN AGREED PERCENTAGE AND IF IN ANY ONE CALENDAR ACCOUNTING YEAR THE LOSS RATIO EXCEEDS THAT PERCENTAGE, THEN THE REINSURERS PAY THE DIFFERENCE.

# **WHAT IS TOP & DROP COVER?**

**THE COVER PROTECTS DUAL PROTECTION IN**

**THE FORM OF A TOP LAYER AND ALSO AS AN**

**ADDITIONAL REINSTATEMENT TO ANY OF THE**

**LOWER LAYERS.**

# XL WORKING

<b>COVER LIMITS</b>		<b>50 LAKHS XS 5 LAKHS</b>	
<b>NET CLAIM</b>		<b>60LAKHS</b>	
<b>REINSURERS</b>	<b>A</b>	<b>90%</b>	
	<b>B</b>	<b>10%</b>	
	<b>LAYER I</b>	<b>20 XS 5</b>	<b>20</b>
	<b>LAYER II</b>	<b>20XS 25</b>	<b>20</b>
	<b>LAYER III</b>	<b>10XS 45</b>	<b>10</b>
		<b>TOTAL RECOVERABLE</b>	<b>50</b>
		<b>UNCOVERED</b>	<b>5</b>

# STOP LOSS

- A REINSURED WISHING TO PROTECT HIMSELF IN THE EVENT HIS NET LOSS RATIO FOR A GIVEN YEAR RISES ABOVE A CERTAIN PERCENTAGE, CAN BUY REINSURANCE WHICH PAYS IN EXCESS OF THAT FIGURE UPTO A HIGHER AGREED PERCENTAGE BEYOND WHICH THE REINSURED RETAINS THE LOSS.

EXAMPLE::

AGGREGATE XL : 90% OF EXCESS OF LOSS RATIO OVER 80% SUBJECT TO A MAXIMUM LOSS RATIO OF 130%.

# XL RATING

## - PAY BACK METHOD ::

RECOUPMENT OF CAT LOSS THROUGH PREMIUM COLLECTED OVER A PERIOD OF 250 YEARS IN PRACTICE TO ASSIST FOR DETERMINING PREMIUM FOR CAT XL COVER

## **- EXPOSURE RATING(ACTUARIAL METHOD)**

## **- BURNING COST(HISTORICAL METHOD) ::**

BASED ON HISTORICAL EXPERIENCE OF LOSSES AS IF THE REINSURER PAID THEM IN THE PAST

INCURRED LOSS TO THE TREATY $x 100$   
GNPI

## **LOADED BURNING COST::**

INCURRED LOSS/GNPI $\times 100/70$

# XL WORKING

GNPI 5,00,00,000

INC CL 10,50,000

PREMIUM TO BE ADJUSTED  
ON THE BASIS  
OF LOSS LBC 100/70  
MINRATE 4% AND  
MAXIMUM RATE 6%

BC 2.1

LBC 3

MIN RATE 4%

HENCE 2000000 XL PREMIUM

if any deposits are paid , the  
same to be

deducted from 20 lakhs and  
balance to be  
paid.

# REINSTATEMENT FACILITY

WHEN A LOSS IS RECOVERED FROM A LAYER, THE COVER LIMIT GETS EXHAUSTED/REDUCED .

IN ORDER TO HAVE THIS FACILITY AGAIN FOR FUTURE LOSSES, THE COVER/LAYER LIMIT CAN BE REINSTATED BACK TO ITS ORIGINAL LIMIT.

FOR REINSTATEMENT, THE COST TO THE LAYER IS REQUIRED. THIS IS KNOWN AS RATE ON LINE.

LAYER	LIMIT	Xs	LOSS RETN	GNPI	RATE%	XL COST	ROL%	MIN DEP	REINST
I	50	Xs	15	500	2.50%	12.50	25%	11.25	2@100 A.P
II	80	Xs	65	500	2.25%	11.25	14.06%	10.125	2@100 A.P
III	70	Xs	145	500	2.00%	10	14.285 %	9	2@100 A.P
	200	Xs	15	500	6.75%	33.75	16.875	30.375( 90% of 33.75)	

# XL WORKING

REINSTATEMENT

PRO RATA TO THE AMOUNT

2REINSAT 100% AP PRO RATA

LIMIT 50 LAKHS XS 10 LAKHS

GNPI 12468000

ADJ RATE 2.40%

RECOVERY 1250000

XL COST 299232

RI PR  $299232/5000000 * 1250000$

74808

# XL WORKING

REINSTATEMENT

PRO RATA TO THE PERIOD

TTY PERIOD 1.4.92 TO 31.3.93

LIMIT	20 LAKHS XS 10 LAKHS
DOF LOSS	13.6.92
AMT OF LOSS	50000
REINSTATEMENT	One at 50%actual pr prorata to period.
XL COST	80000
RI PR=800 for pro rata period	*292/365
	1000
	800

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## RATE ON LINE ::

The Rate applied to the limit of cover. Cost to the layer/programme

## -NOTICE OF CANCELLATION AT ANNIVERSARY DATE

IT SAVES THE TROUBLE OF OBSERVING THE NOTICE PERIOD MENTIONED IN THE AGREEMENT AND WHERE HE IS UNSURE OF HIS PROCEDURES FOR REVIEWING THE TREATY ACCEPTANCES.

## - PROVISIONAL NOTICE OF CANCELLATION /DEFINITE NOTICE OF CANCELLATION

THIS IS WORDED IN SUCH A WAY TO GIVE NOTICE OF TERMINATION AND AT THE SAME TIME MAKE IT PROVISIONAL TO ENABLE THE REINSURER TO REVIEW THE ARRANGEMENT AND DECIDE ON HIS CONTINUATION FOR THE ENSUING YEAR.

## - SUDDEN DEATH CLAUSE

## -ALTERATIONS; BY MUTUAL CONSENT

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## - SUDDEN DEATH CLAUSE::

THIS CLAUSE PROVIDES FOR CANCELLATION OF REINSURANCE UNDER CERTAIN EXTRAORDINARY CIRCUMSTANCES.

(EX) IN CASE OF A WAR BETWEEN THE COUNTRY OF RESIDENCE OF THE CEDING INSURER AND THE COUNTRY IN WHICH THE REINSURER RESIDES OR CARRIES ON BUSINESS OR IS INCORPORATED, THE AGREEMENT WILL BE AUTOMATICALLY TERMINATED.

SUCH TERMINATION WITHOUT NOTICE IS KNOWN AS SUDDEN DEATH CLAUSE.

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## **-ALTERATIONS; BY MUTUAL CONSENT::**

THIS CLAUSE PROVIDES FOR MAKING AMENDMENTS, WITH THE CONSENT OF BOTH THE PARTIES.

## **-ERRORS AND OMISSIONS CLAUSE ::**

THIS CLAUSE IS DESIGNED TO PROTECT THE CEDING INSURER AGAINST ANY INADVERTENT DELAYS, ERRORS AND OMISSIONS.

- IMMEDIATE RECTIFICATION
- SHOULD NOT INCREASE THE LIABILITY OF THE REINSURERS.

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## **SET OFF CLAUSE**::

THIS CLAUSE PERMITS EACH PARTY TO NET AMOUNTS DUE AGAINST THOSE PAYABLE BEFORE MAKING PAYMENT.

## **ACCOUNTS CLAUSE::**

- IT TALKS ABOUT AS TO WHEN THE ACCOUNTS ARE TO BE RENDERED TO THE REINSURERS
- WHEN THE ACCOUNTS ARE TO BE CONFIRMED AND BALANCE TO BE SETTLED
-

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## **- CURRENCY CLAUSE ::**

THIS CLAUSE PROVIDES THE METHODOLOGY ON WHAT CURRENCY THE ACCOUNTING AND SETTLEMENT WOULD TAKE PLACE.

## **- PRELIMINARY LOSS ADVICE ::**

ADVICE TO BE GIVEN TO THE REINSURER WHEN A LOSS REACHES AN AGREED AMOUNT.

## **- CASH CALL REQUEST::**

IF ANY INDIVIDUAL LOSS EXCEEDS AN AGREED SUM, THE CEDING INSURER MAY REQUEST FOR IMMEDIATE SETTLEMENT OF LOSS BY THE REINSURER FOR HIS SHARE

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## **- FOLLOW THE FORTUNES ::**

THIS CLAUSE STATES THAT REINSURANCES ARE FULLY SUBJECT TO THE SAME TERMS AND CONDITIONS AS THE ORIGINAL INSURANCE.

PREMIUM TO BE PAID TO THE REINSURER AT THE SAME RATE AS RECEIVED BY THE CEDING INSURER.

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

- **ULTIMATE NET LOSS::**

GROSS LOSS LESS ANY RECOVERIES FROM OTHER REINSURANCE

- **HOURS CLAUSE**(72 CONSECUTIVE HOURS AS REGARDS A HURRICANE, TYPHOON, WINDSTORM, RAINSTORM, 72 HRS REGARDS EQ, SEAQUAKE, TIDAL WAVE, VOLC ERUPTION)
- **PML EXCESS CLAUSE**

IN THE EVENT OF LOSS, THE PML UNDERLYING THE PARTIES REINSURANCE AGREEMENT IS EXCEEDED, THE ADDL LIAB TO BE BORNE BY THE REINSURER SHALL BE LIMITED TO 50% OF THE AMOUNT THAT WOULD HAVE RESULTED HAD THE PML NOT BEEN EXCEEDED.

- **EXTENDED EXPIRY**

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## - **EXTENDED EXPIRY::**

IF THE AGREEMENT SHOULD EXPIRE OR BE TERMINATED WHILE A LOSS OCCURRENCE COVERED HEREUNDER IS IN PROGRESS, IT IS UNDERSTOOD AND AGREED THAT SUBJECT TO THE OTHER CONDITIONS OF THE AGREEMENT, THE REINSURER HEREON IS RESPONSIBLE AS IF THE ENTIRE LOSS OR DAMAGE HAD OCCURRED PRIOR TO THE EXPIRATION OF THE AGREEMENT.

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

- **DOWNGRADE CLAUSE::**

THIS CLAUSE ALLOWS REINSURED TO CANCEL THE REINSURED TO CANCEL THE REINSURANCE CONTRACT (AND THEN SEEK A NEW REINSURER) IF THE REINSURER IS DOWNGRADED BY THE RATING ORGANISATIONS.

- CUT THROUGH CLAUSE
- INDEX CLAUSE
- CLAIMS CO-OPERATION CLAUSE
- CLAIMS CONTROL CLAUSE

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

- **CUT THROUGH CLAUSE::**

A CUT THROUGH PROVISION ALLOWS A PARTY NOT IN PRIVITY WITH THE REINSURER TO HAVE RIGHTS AGAINST THE REINSURER UNDER THE REINSURANCE AGREEMENT .

IT IS TRIGGERED ON THE CEDING INSURER'S

- DEFAULT IN PAYMENT, INSOLVENCY, OR UPON ENTRY OF A LIQUIDATION ORDER.,

- INDEX CLAUSE
- CLAIMS CO-OPERATION CLAUSE
- CLAIMS CONTROL CLAUSE

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

## - **INDEX CLAUSE::**

ON PAYMENT OF ANY CLAIM, THE PRIORITY OF THE COMPANY AND THE MAXIMUM LIABILITY OF THE REINSURER SHALL BE INCREASED OR DECREASED IN PROPORTION TO THE INCREASE IN THE INDEX FROM THE DATE OF COMMENCEMENT OF THE AGREEMENT TO THE TIME OF PAYMENT OF THE CLAIM, PROVIDED SUCH INDEX DEVIATES BY 10% OR MORE.

IF THE FLUCTION OF THE INDEX IS BELOW 10%, THE PRESENT CLAUSE SHALL NOT BE APPLIED.

# COMMON CLAUSES/ TERMS IN RI CONTRACTS

- **CLAIMS CO-OPERATION CLAUSE::**

REINSURED SHALL IMMEDIATELY UPON BECOMING AWARE OF ANY CLAIM IN EXCESS OF THE A SPECIFIED LIMIT, INFORM THE REINSURER

- CLAIMS CONTROLS CLAUSE ::**

REINSURERS SHALL HAVE COMPLETE CONTROL OF THE ADJUSTMENT OF ALL CLAIMS INDEMNIFIABLE UNDER THE POLICY.

# WHAT ARE THE OBJECTIVES OF REINSURANCE PROGRAMME?

- 1. MAXIMISE RETENTION WITHIN THE COUNTRY.**
- 2. DEVELOP ADEQUATE CAPACITY**
- 3. SECURE THE BEST POSSIBLE PROTECTION FOR THE REINSURANCE COST INCURRED AND**
- 4. SIMPLIFY THE ADMINISTRATION PROCEDURES**



## **WHAT IS RETENTION?**

**RETENTION IS THE AMOUNT OF LIABILITY**

**WHICH A COMPANY WOULD LIKE TO KEEP**

**FOR ITS OWN ACCOUNT WHEN UNDERWRITING**

**A RISK.**

# **FIXING OF RETENTIONS**

**RETENTIONS ARE SEPARATE FOR EACH CLASS OF BUSINESS.**

**RETENTION WILL VARY FROM COMPANY TO COMPANY**

**THERE IS NO SET MATHEMATICAL FORMULA.**

# **FIXING OF RETENTIONS**

FIRE::

SCHEDULE OF RISK IS BASED ON FACTORS SUCH S

LOCATION, SEPARATION, PROCESS CARRIED ON ,

CLASS OF CONSTRUCTION ETC.,

- RETENTION AMOUNTS IN SUM INSURED ARE GRADED

- IN LARGE RISKS , BASED ON THE INSPECTION REPORTS

RETENTIONS ARE FIXED INDIVIDUALLY.

- GRADUALLY, THE PRACTCE HAS GROWN OF EXPRESSING THE RETENTIONS AND REINSURANCE CESSIONS ON PML

# **INWARD REINSURANCE**

## **1. DIRECT INWARD**

- INDIAN INWARD**
- FOREIGN INWARD**

## **2. ON FAC**

## **3. ON TTY**

## **4. ON RETRO**

# **INWARD REINSURANCE**

## **OBJECTIVES ::**

- 1. TO INCREASE THE GROSS PREMIUM AND NET RETAINED PREMIUM.**
- 2. TO ACHIEVE A LOWER EXPENSE RATIO BY THE MAINTENANCE OF VOLUME OF PREMIUM INCOME.**

# **INWARD REINSURANCE**

## **OBJECTIVES ::**

- 3. TO OBTAIN A BETTER AND WIDER SPREAD OF BUSINESS BY WRITING BUSINESS FROM OVERSEAS.**
- 4. TO COUNTERACT THE DRAIN OF FOREIGN EXCHANGE ON ACCOUNT OF REINSURANCE CEDED ABROAD.**

# **INWARD REINSURANCE**

## **OBJECTIVES ::**

- 5. TO EARN AN INVESTMENT INCOME WHICH MAY BE DERIVED FROM THE CASH FLOW RESULTING FROM INWARD ACCEPTANCES.**
  
- 6. TO ACT AS A WINDOW ON INTERNATIONAL REINSUANCE MARKETS.**

# INWARD REINSURANCE

1. RECIPROCAL
2. NON-RECIPROCAL

# COMMON TERMS

## **1. CEDE::**

**TO GIVE AWAY OR TRANSFER ALL OR  
PART OF RISK TO ANOTHER  
COMPANY OR COMPANIES.**

**CESSION::**

**THE AMOUNT GIVEN OFF BY**

**WAY OF REINSURANCE AND**

**THEREFORE ACCEPTED BY THE**

**REINSURERS.**

**CEDING COMPANY::**

**THE ORIGINAL INSURER WHO PLACES**

**REINSURANCE**

## **FACULTATIVE REINSURANCE::**

**THE SYSTEM BY WHICH EACH OFFER OF**

**REINSURANCE IS CONSIDERED**

**INDIVIDUALLY BY THE REINSURER AND**

**EITHER ACCEPTED OR DECLINED.**

LINE::

THE AMOUNT OF RETENTION OF THE DIRECT INSURER.

REINSURANCE TREATY::

AN AGREEMENT MADE BETWEEN THE CEDING COMPANY

AND THE REINSURER UNDER WHICH THE FORMER AGREES

TO CEDE OBLIGATORILY A PORTION OF RISK UPTO AN

AGREED LIMIT TO THE REINSURER, WHO IN TURN AGREES

TO ACCEPT SUCH CESSIONS.

## **RETROCESSION::**

**- A REINSURANCE OF A REINSURANCE.**

## **SLIP::**

**A DOCUMENT SHOWING DETAILS OF REINSURANCE**

**PROPOSED TO BE OFFERED WHICH IS CIRCULATED**

**TO THE REINSURERS**

## **COVER LIMIT::**

**THE MAXIMUM AMOUNT FOR WHICH THE REINSURER  
IS LIABLE TO THE CEDING COMPANY IN THE EVENT OF  
LOSS  
IN EXCESS OF THE DEDUCTIBLE.**

## **CLAIMS CO-OPERATION CLAUSE::**

**WHERE THE REASSURED AGREES TO CONSULT AND  
CO-OPERATE WITH REINSURERS ON CLAIMS HANDLING  
AND SETTLEMENT.**

**BORDEAUX::**

**ADVICES OF CESSIONS TO A TREATY ,**

**GIVING DETAILS OF EACH CESSION.**

## **RATING METHODS IN EXCESS OF LOSS COVERS::**

- 1. FLAT PREMIUM.**
- 2. A FIXED RATE ON GNPI**
- 3. VARIABLE RATE BASED ON BURNING COST.**

# **BURNING COST**

- THE COST OF CLAIMS TO AN EXCESS OF  
LOSS COVER EXPRESSED AS A  
PERCENTAGE OF ORIGINAL PREMIUM  
INCOME.**

# **BURNING COST**

**- LOADED BURNING COST::**

**PURE B.C. IS LOADED BY 100/70 TO TAKE**

**CARE OF WORSENING LOSS EXPERIENCE,**

**ACQUISITION COSTS AND PROFIT MARGIN.**

-

# REINSURANCE FINANCIAL SECURITY

- A CREDIT RATING IS A CURRENT OPINION OF THE FINANCIAL STRENGTHS AND SECURITY CHARACTERISTICS OF AN INSURER OR REINSURER WITH RESPECT TO HIS ABILITY TO PAY UNDER HIS INSURANCE POLICIES AND CONTRACTS.
- INDIVIDUAL INSURER RATING HOWEVER GOOD, IS SUBORDINATE TO ITS COUNTRY'S RATING.
- IN INDIA, IRDA HAS STIPULATED THE USE OF REINSURERS WITH RATING NOT LESS THAN BBB.

# REINSURANCE FINANCIAL SECURITY

- THE FINANCIAL STRENGTHS ARE REFERRED DIFFERENTLY AS 'VERY STRONG' TO 'POOR'
- MAJOR AND POPULAR CREDIT RATING AGENCIES WORLDWIDE::
  - STANDARD & POOR
  - A M BEST
  - MOODY'S
  - DUFF & PHELPS.
- MAJOR CREDIT RATINGS IN INDIA ::
  - CREDIT ANALYSIS & RESEARCH LIMITED(CARE)
  - CREDIT RATING INFORMATION SERVICES OF INDIA LTD(CRISIL)
  - DUFF & PHELPS CREDIT RATING INDIA PVT LTD(DCR INDIA)
  - INVESTMENT INFORMATION AND CREDIT RATING AGENCY OF INDIA(ICRA)

# ALTERNATIVE RISK TRANSFER

# ALTERNATIVE RISK TRANSFER

- IT IS THE CONSEQUENCE OF RETHINKING THE ROLE OF INSURANCE IN FINANCING LOSS DUE TO RISK.
- INTENTION IS TO COVER A CUSTOMIZED COMBINATION OF EVENT RISK(A NATURAL DISASTER) AND FINANCIAL RISK (COMMODITY PRICE FLUCTUATION).

# ALTERNATIVE RISK TRANSFER

-ALTERNATIVE TYPE OF RISK CARRIERS::

-SELF INSURANCE

-RISK RETENTION GROUPS

-POOLS

-CAPTIVES.

# ALTERNATIVE RISK TRANSFER

## SELF INSURANCE::

SELF INSURANCE CAN BE A RETAINED LEVEL OF  
DEDUCTIBLE.

-THIS CAN BE THROUGH A MUTUAL GROUP OR POOL  
WITHIN AN ASSOCIATION OR BODY.

# ALTERNATIVE RISK TRANSFER

## RISK RETENTION GROUP:

A RISK RETENTION GROUP IS A CORPORATION OWNED AND OPERATED BY INSURANCE COMPANIES THAT BAND TOGETHER AS SELF-INSURERS AND FORM AN ORGANISATION THAT IS CHARTERED AND LICENSED AS AN INSURER. IN THE UNITED STATES, IT ADDRESSES GAPS IN LIABILITY INSURANCE.

# ALTERNATIVE RISK TRANSFER

## POOL::

- TERRORISM POOL, ETC

# ALTERNATIVE RISK TRANSFER

## CAPTIVE::

AN INSURER CREATED AND WHOLLY OWNED BY  
ITS SPONSORS TO PROVIDE A FACILITY TO AGGREGATE  
INSURE, AND REINSURE THEIR RISKS.

# ALTERNATIVE RISK TRANSFER

## FEATURES OF ALTERNATIVE RISK TRANSFERS::

- CUSTOM- TAILEDOR TO THEUNIQUE NEEDS OF THE CLIENT.
- COVERAGE PROVIDED ON A MULTIYEAR BASIS.
- COVERAGE APPLICABLE TO MULTIPLE LINES OR
- PAYOFF CAN BE TRIGGERED BY MULTIPLE FACTORS.

# ALTERNATIVE RISK TRANSFER

## TECHNIQUES OF RISK MANAGEMENT::

1. RISK TRANSFER
2. RISK RETENTION FINANCING &
3. ASSET MANAGEMENT.

# ALTERNATIVE RISK TRANSFER

## RISK TRANSFER::

OBJECTIVE IS TO ENABLE A CUSTOMER MINIMISE THE TOTAL COST OF CAPITAL NEEDED TO DEAL WITH A RISK BY REINSURING.

# ALTERNATIVE RISK TRANSFER

## RISK RETENTION FINANCING::

ASSISTS THE INSURERS AND CORPORATES IN FINANCING  
THEIR RETENTION.

- FINITE REINSURANCE, RUN-OFF COVERS
- USE OF BONDS, OPTIONS AND HEDGES

# ALTERNATIVE RISK TRANSFER

**ASSET MANAGEMENT::**

**ASSET MANAGEMENT REFERS TO THE PROFESSIONAL  
MANAGEMENT OF INVESTMENTS SUCH AS STOCKS AND  
BONDS ALONGWITH REAL ESTATE.**

# ALTERNATIVE RISK TRANSFER

## CONTIGENT CAPITAL::

THIS SOLUTION COMES IN HANDY WHEN A MAJOR LOSS MAKES CAUSES A CRISIS OF LIQUIDITY.

- HERE , THE POLICY HOLDER ASSURES HIMSELF THE
- RIGHT TO RAISE EITHER EQUITY OR LOAN CAPITAL AT
- TERMS AGREED BEFORE HAND SHOULD THERE BE A
- CONTRACTUALLY DEFINED INSURANCE EVENT.

# ALTERNATIVE RISK TRANSFER

## CONTIGENT CAPITAL::

CONTINGENT CAPITAL SOLUTIONS HAVE BEEN POPULAR  
WITH DIRECT INSURERS PRINCIPALLY TO HELP COMPLY  
WITH SOLVENCY MARGINS AND TO BE ABLE TO WRITE  
BUSINESS AFTER A MAJOR LOSS EVENT.

# ALTERNATIVE RISK TRANSFER

## FINITE RISK::

- DEVELOPED BY FOUNDERS OF CENTRE RE, BERMUDAS.
- COVER IS DESIGNED TO OPERATE ON MULTI YEAR BASIS
- IF COVER RUNS LOSS FREE DURING ITS MULTI YEAR TERM,  
PREMIUM AS PAID ARE RETURNABLE TO POLICY HOLDER  
WITH INTEREST AT AGREED RATE FOR THIS PERIOD.
- USUALLY WRITTEN BY SINGLE REINSURER.

# ALTERNATIVE RISK TRANSFER

## FINANCIAL REINSURANCE::

FINANCIAL REINSURANCE IS A DEVICE TO TRANSFER A PART OF BUSINESS BY AN INSURER TO ANOTHER INSURER OR REINSURER FOR A SPECIFIED PERIOD AND TO APPROPRIATE THE FUND OBTAINED BY A TRANSFER OF BUSINESS FOR POLICY RESERVES TO STRENGTHEN HIS FINANCIAL POSITION.

# ALTERNATIVE RISK TRANSFER

## FUTURES::

FUTURES AND FORWARDS ARE AGREEMENTS WHERE  
TWO PARTIES AGREE TO A SPECIFIED TRADE IN FUTURE  
AT A SPECIFIED TIME.

# ALTERNATIVE RISK TRANSFER

## OPTIONS::

-OPTIONS ARE WHERE TWO PARTIES AGREED TO A TRADE IN THE FUTURE BUT ONE PARTY RETAINS THE RIGHT TO OPT OUT OF THE TRADE.

# ALTERNATIVE RISK TRANSFER

**SWAPS::**

IS AN AGREEMENT TO AN EXCHANGE OF RISK .

FOR EXAMPLE, A JAPANESE REINSURER WOULD EXCHANGE

HIS EQ EXPOSURE WITH WINDSTORM EXPOSURE OF A

SWISS REINSURER. THIS WOULD MEAN THAT EACH OF

THE REINSURERS PROTECTS THE OTHER MUTUALLY

IF THE EXPOSURE TURNS INTO AN EVENT.

# ALTERNATIVE RISK TRANSFER

**DERIVATIVES::**

**THEY UNBUNDLE THE RISK AND PASS FROM PARTIES NOT  
WILLING TO TAKE THE RISK TO PARTIES MORE WILLING TO  
TAKE THE RISK.**

**(EX) WEATHER DERIVATIVES.**

# ALTERNATIVE RISK TRANSFER

## SECURITISATION::

-SECURITISATION IS AN ATTEMPT TO GET OVER CAPACITY CONSTRAINTS IN THE INSURANCE MARKETS FOR NATURAL CATASTROPHES BY SECURITISING CATASTROPHE RISK PORTFOLIOS AND PLACE THEM DIRECT WITH INVESTORS IN THE FORM OF SECURITIES.

# IRDA REGULATIONS

## 3 A b). EVERY INDIAN INSURER SHALL::

- Submit to the Authority, its proposed Reinsurance Programme for the forthcoming financial year in the specified summary format at least 45 days before the commencement of the financial year.

## 3 A c - File with the Authority, within 45days of the commencement of the financial year ::

- i) its Board approved Final Reinsurance Programme highlighting improvements in net retentions with variation if any, from the RI Program of preceding year as well as from the proposed RI Programme submitted.

- ii) reinsurerwise details of actual placements during previous financial year for each Insurance Segment.

# IRDA REGULATIONS

- d. file with the Authority any new or revision of Re-insurance arrangement (made after the final Reinsurance Programme ), giving full details with related documents, reasons for such an arrangement together with Board approved copy within 15 days of approval of the Board.
- e. submit within 90 days certificate from the CEO confirming that all the Treaties have been received in original, stamped and signed.

Every Indian Insurer shall submit soft copies of list of reinsurers with their credit rating, their shares in the proportional and non proportional reinsurance arrangements alongwith the final Reinsurance programme

# PROCEDURES FOR REINSURANCE PLACEMENTS

## **FOR SEEKING BEST REINSURANCE TERMS ::**

1. CEDANTS SHALL SEEK TERMS ATLEAST FROM ALL INDIAN REINSURERS
2. **ATLEAST FOUR other category 2 reinsurers::**  
IIOs - Intl Fin Serv Centre Ins Offices( which invests 100% of retained premium emanating from India in the Domestic Tariff Area) / and FRBs(Foreign Reinsurers Branches)
3. NO CEDANT SHALL SEEK TERMS FROM :  
A) IIOs ( INTL FIN SERVICE CENTRE INSURANCE OFFICES(IIOs)/CBRs HAVING CREDIT RATING BELOW A- FROM S&P OR EQUIVALENT

# PROCEDURES FOR REINSURANCE PLACEMENTS

No cedant shall seek terms from ::

CBRs having credit rating below A- from S&P

# PROCEDURES FOR REINSURANCE PLACEMENTS

## OFFER FOR PLACEMENTS::

Every cedant shall offer best terms obtained, for participation in the following order of preference( while fulfilling the minimum necessary placement with the lead reinsurers quoting the best terms)::

a) CATEGORY I ::

to Indian Reinsurers

b) CATEGORY II::

**IIOs** - Intl Fin Serv Centre Ins Offices( which invests 100% of retained premium emanating from India in the Domestic Tariff Area) /

**FRBs**(FRB - FOREIGN REINSURER'S BRANCH)

c) CATEGORY III:

to other IIOs

d) CATEGORY IV:: to other Indian Insurers(only fac) and CBRs.

## IRDA REGULATIONS ON CESSION LIMITS

<b>RATING OF THE CBR as per S&amp;P or Equivalent</b>	<b>Maximum overall cession limits allowed per CBR</b>
GREATER THAN A+	20%
GREATER THAN BBB+ AND UPTO AND INCL A+	15%
BBB & BBB+	10%

# THANK YOU

