

Fundamentals of Reinsurance for Directors

Tuesday, May 8, 1:00 – 2:20 p.m.

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Gary Myers is a familiar figure to many in the property/casualty insurance industry. Starting out as an independent agent 45 years ago, Gary's progressed through various company ranks. He held executive positions at Employers Reinsurance Corporation from 1980 until 2001, focusing specifically on treaty reinsurance marketing, production, underwriting, and management. From 2001 until 2009, he served as executive vice president at Shelter Mutual Insurance Company, with responsibility for reinsurance ceded and assumed, underwriting, customer communications, and life insurance operations to name a few. In November 2009, he was named president and CEO of Cameron Mutual Insurance Company. He retired January 1, 2015, and has continued as a member of the Cameron Mutual board of directors.

Gary supplemented his corporate experience and success through association membership. He is a lifetime member of the Society of CPCU. For five years, he served as an active member of the advisory committee for The Institutes' Associate in Reinsurance exam series.

He is also an active member of NAMIC, having served on various NAMIC boards and committees since 1996, including serving as chairman of the Property Casualty Conference board of directors. He has been a member of the NAMIC Directors' Education faculty since 2008.

He holds the Chartered Property Casualty Underwriter and Associate in Reinsurance designations.

Session Description:

This session will provide an introduction to reinsurance fundamentals along with a general overview of the topic of reinsurance. It will explore various types and structures of reinsurance, key principals and terminology, and the numerous reinsurance markets. We will touch on issues necessary for company management to assemble an appropriate, successful reinsurance program. The session will also discuss oversight issues for monitoring company reinsurance activities.

Top Three Session Ideas

Tools or tips you learned from this session and can apply back at the office.



1. _____

2. _____

3. _____

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GLOSSARY OF TERMS

Fundamentals of Reinsurance for Directors

Access to Records Clause: A provision in a reinsurance agreement that allows the Reinsurer access to the Ceding Company's books, records and other documents and information pertaining to the reinsurance agreement. This includes related accounting, underwriting and claims information, for purposes of the Reinsurer obtaining information concerning the reinsurance agreement or its subject matter.

Accident Year Experience: Underwriting experience accumulated by matching the total value of all losses occurring during a given 12 month period (i.e., the dates of loss fall within the period) with the premiums earned for the same period regardless of when the losses are actually reported, booked or paid. See also Calendar Year Experience and Policy Year Experience. Directors

Acquisition Costs: All expenses directly related to acquiring insurance or reinsurance accounts; i.e., commissions paid to agents, brokerage fees paid to brokers, premium taxes and expenses associated with marketing, underwriting, contract issuance and premium collection.

Admitted (Authorized) Reinsurance: Reinsurance for which credit is given in the ceding company's Annual Statement because the reinsurer is licensed or otherwise authorized to transact business in the jurisdiction of domicile of the ceding company. (See also Non-Admitted Reinsurance)

Aggregate Excess of Loss Reinsurance (also known as Excess of Loss Ratio Reinsurance, Stop Loss Reinsurance): A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount by which all of the ceding company's losses (either incurred or paid) during a specific period (usually 12 months) exceed either 1) a predetermined dollar amount or 2) a percentage of the ceding company's subject premiums earned (loss ratio) for the specific period.

Alien (Insurer): An insurer domiciled outside the United States and incorporated under the laws of any other country.

Annual Statement (also known as Convention Blank, Statutory Annual Statement): The annual report format prescribed by the National Association of Insurance Commissioners and utilized to submit financial data and related information to insurance regulators. All states use the annual statement blank promulgated by the NAIC, but each state retains the authority to make changes in those statements. Changes made by states generally require only supplemental information and do not change the basic financial information.

Arbitration Clause: A provision found in reinsurance contracts whereby the parties agree to submit their disputes to a non-judicial adjudication panel rather than a court of law, generally subject to selection criteria and procedures set out in the clause. The arbitration panel produces an award, ultimately enforceable by a court of law, binding both parties.

Association (also known as Pool, Syndicate): An organization of insurers or reinsurers through which pool members underwrite particular types of risks with premiums, losses, and expenses shared in agreed amounts. Associations may be voluntary or involuntary if mandated by insurance laws.

Assume: To accept an obligation to indemnify all or part of a ceding company's insurance or reinsurance on a risk or exposure subject to the contract terms and conditions.

Assumption: A procedure under which one insurance or reinsurance) company takes over or assumes contractual obligations of another insurer or reinsurer.

Assumption of Liability Endorsement: An endorsement to an insurance policy or reinsurance contract wherein a reinsurer assumes insurance obligations or risks, or both, of existing or in-force policies of insurance. The term is distinguished from a cut-through. See Cut-Through Endorsement.

Authorized Reinsurance: See Admitted Reinsurance.

Base Premium (also known as Premium Base, Subject Premium, Underlying Premium): The ceding company's premiums (written or earned) representing the original exposure forming the basis for the reinsurance and to which the reinsurance premium rate is applied to produce the reinsurance premium. This term is usually defined in the reinsurance contract.

Gross Net Earned Premium Income (GNEPI): GNEPI represents the earned premiums of the primary company for the lines of business covered net, meaning after cancellation, refunds and premiums paid for any reinsurance protecting the cover being rated, but gross, meaning before deducting the premium for the cover being rated.

Gross Net Written Premium Income (GNWPI): Generally, gross written premium less only returned premiums and less premiums paid for reinsurance that inure to the benefit of the cover in question. Its purpose is to create a base to which the reinsurance rate is applied.

Basic Capital Requirement (BCR): The BCR is a simplified factor-based capital requirement intended for insurers designated as systemic (GSILs) and is intended to be the basis on which additional capital requirements, a.k.a. Higher Loss Absorbency (HLA) are applied to GSILs.

Basis of Attachment/Treaty Experience: A methodology that determines which original policy losses will be covered under a given reinsurance agreement. There are two types of methodologies: policies attaching and losses occurring. The determination may be based on 1) the effective or renewal date of the original policy; or 2) on the date of the loss; or 3) on the date when the reinsured company recorded premium or loss transaction.

Underwriting Year (See also Policies Attaching): The effective date of the original policy, rather than the date of loss, determines the basis of attachment. Any losses occurring on policies written or renewed with inception or renewal dates during the term of the given reinsurance agreement will be covered by that reinsurance agreement irrespective of when the loss actually occurred. This mechanism is often used with "the policies attaching" methodology.

Accident Year (See also Losses Occurring During): The date of the loss under the original policy, rather than the effective date of the original policy, that determines the basis of attachment. Any losses occurring during the reinsurance agreement period on policies in force (if any), written or renewed will be covered by that reinsurance agreement irrespective of the inception or the renewal date of the original policy. This mechanism is often used with "the losses occurring during" the contract period methodology.

Calendar Year Experience: The evaluation of loss experience whereby the total value of all losses incurred during a given twelve-month period (regardless of the dates of loss or the inception date of the policy) is matched with the premiums earned for the same period. As the name implies, Calendar Year Experience is usually calculated for a twelve-month period beginning January 1st. See also Accident Year Experience and Policy Year Experience.

Binder: An interim short form contract evidencing coverage, pending issuance by a formal reinsurance contract. See Placement Slip and Cover Note.

Bordereau: A report provided periodically by the Ceding Company detailing the reinsurance premiums and/or reinsurance losses and other pertinent information with respect to specific risks ceded under the reinsurance agreement. This report typically includes the insured's name, premium basis, policy term, type of coverage, premium and the policy limit. Alternatively, a bordereau could also be the mechanism by which the Ceding Company details losses or claims, include insured, claimant, date of loss, description of loss, and financials.

Broker: An intermediary who negotiates reinsurance contracts between the ceding company and the reinsurer(s). The broker generally represents the ceding company and receives compensation in the form of commission, and/or other fees, for placing the business and performing other necessary services.

Broker Market: The collective reference to those reinsurance companies that accept business mainly from reinsurance intermediaries or brokers. See Direct Writing Reinsurer.

Bulk Reinsurance: A transaction sometimes defined by statute through which, of itself or in combination with other similar agreements, an insurer assumes all or a substantial portion of the liability of the ceding company.

Burning Cost (also known as Pure Loss Cost): The ratio of the reinsurance losses incurred to the ceding company's subject premium based upon historical experience for a proposed reinsurance agreement.

Capacity: The largest amount of insurance or reinsurance available from a company or the market in general. Also refers to the maximum amount of business (premium volume) that a company or the total market could write based on financial strength or regulatory limitations.

Catastrophe Reinsurance: A form of excess of loss reinsurance which, subject to a specific limit, indemnifies the ceding company in excess of a specified retention with respect to an accumulation of losses to multiple insureds and/or policies resulting from an occurrence or series of occurrences arising from one or more disasters.

Cede: The action of an insurer of reinsuring with another insurer or reinsurer the liability assumed through the issuance of one or more insurance policies by purchasing a contract that indemnifies the insurer within certain parameters for certain described losses under that policy or policies. This action is described as transferring the risk or a part of the risk from the insurer to the reinsurer. The insurer (the buyer) is called the cedent and the assuming company (the seller) is called the reinsurer.

Cedent (also known as Ceding Company, Reassured, Reinsured): The issuer of an insurance contract that contractually obtains an indemnification for all or a designated portion of the risk from one or more reinsurers.

Ceding Commission: An amount deducted from the reinsurance premium to compensate a ceding company for its acquisition and other overhead costs, including premium taxes. It may also include a profit factor and is called a ceding allowance. See Overriding Commission and Sliding Scale Commission.

Ceding Company: The company that transfers its risk to a reinsurer. See Cedent, Reassured, Reinsured.

Cession: The portion of insurance ceded by the ceding company to the reinsurer.

Claims Made Coverage: The provision in a policy of insurance that affords coverage only for claims that are made during the term of the policy for losses that occur on or after the retroactive date specified in the policy. A claims made policy is said to "cut-off the tail" on liability business by not covering claims reported after the term of the insurance policy unless the reporting period is extended by special agreement. See Occurrence Coverage.

Claims Made Basis Reinsurance Agreements: The provision in a reinsurance contract that affords coverage for claims that occur and are made during the contract term, for losses that occur on or after the retroactive date specified in the contract. Claims reported during the term of the reinsurance agreement are therefore covered regardless of when they occurred. A claims made agreement does not cover claims reported after the term of the reinsurance contract unless the reporting period is extended by special agreement.

Clash Cover: A casualty excess of loss reinsurance agreement with a retention level equal to or higher than the maximum limits written under any one reinsured policy or contract reinsured under the reinsurance agreement. Usually applicable to casualty lines of business, the clash cover is intended to protect the ceding company against accumulations of loss arising from multiple insureds and/or multiple lines of business for one insured involved in one loss occurrence. Clash cover may also be provided for single policy exposure based on ECO/XPL and run away defense costs. Sometimes referred to as Unknown Accumulation Cover.

Combination Plan Reinsurance: Elements of two types of reinsurance, Pro-Rata (Quota Share) and Excess of Loss, are combined in one reinsurance agreement. The excess of loss part of the plan protects the company up to a specified limit on each risk, each occurrence excess of a fixed net retained line. The pro-rata part of the plan protects the company's net retained lines under the excess part (i.e. after deducting the excess of loss recoveries), on a fixed percentage quota share basis.

ComFrame: The IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups is intended to provide supervisors with a supervisory framework for internationally active insurance groups.

Common Account Reinsurance: Reinsurance which is purchased by the ceding insurer to protect both itself and its reinsurer (usually quota share reinsurer) and which applies to net and treaty losses combined. This may also be referred to as Joint Account Excess of Loss Reinsurance.

Commutation Agreement: An agreement between the ceding insurer and the reinsurer that provides for the valuation, payment and complete discharge of some or all current and future obligations between the parties under particular reinsurance contract(s). Commutation may be required by the reinsurance agreement or may be effected by mutual agreement.

Commutation Clause: A clause in a reinsurance agreement that provides for the valuation, payment, and complete discharge of some or all obligations between the ceding company and the reinsurer, including current and future obligations for reinsurance losses incurred.

Contingency Cover: Reinsurance providing protection for an unusual combination of losses. See Clash Cover.

Continuous Contract: A reinsurance contract that does not terminate automatically but continues indefinitely unless one of the parties delivers notice of intent to terminate. Continuous contract should have an anniversary date to satisfy risk transfer requirements and notice of intent to terminate is usually required to be delivered a specified number of days (typically 90 days) prior to the anniversary date.

Contributing Excess: A form of excess of loss reinsurance where, in addition to its retention, the ceding company has a share of losses in excess of the retention. This form of reinsurance may also apply to subject policies written in excess of underlying insurance or self insured retentions where the reinsurance applies to a share of losses within the policies, with the ceding company or other reinsurers contributing the remaining share. When more than one reinsurer shares a line of insurance on a risk in excess of a specified retention, each reinsurer contributes towards any excess loss in proportion to its original participation in such risk.

Convention Blank: See Annual Statement, Statutory Annual Statement.

Cover Note: A written statement issued by an intermediary, broker or direct writer indicating that the coverage has been effected and summarizing the terms. See also Binder and Placement Slip.

Covered Agreements: Defined under the Dodd-Frank Act, a covered agreement is "a written bilateral agreement or multilateral agreement regarding prudential matters with respect to the business of insurance or reinsurance that (A) is entered into between the United States and one or more foreign governments, authorities or regulatory entities; and (B) relates to the recognition of prudential matters with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation." The FIO is authorized to assist the Treasury Secretary in jointly negotiating covered agreements with the U.S. Trade Representative. To the extent that state law is determined to be inconsistent with a covered agreement, and subject to procedural requirements set forth in the Dodd-Frank Act, that law would be preempted.

Credit for Reinsurance: The right of a ceding company under statutory accounting and regulatory provisions to treat amounts due from reinsurers as assets or reductions from liability based on the status of the reinsurer or collateral provided by the reinsurer.

Credit Carry Forward (CCF): The transfer of credit or profit from one accounting period, as defined within the reinsurance agreement, to the succeeding accounting period under the existing contract or the replacing contract. See also Deficit Carry Forward.

Cut-Off Clause: The termination provision of a reinsurance contract stipulating that the reinsurer shall not be liable for loss as a result of occurrences taking place after the date of termination. The remaining unearned premiums are returned to the ceding company.

Cut-Through Endorsement: An endorsement to an insurance policy or reinsurance contract which provides that, in the event of the insolvency of the insurance company, the amount of any loss which would have been recovered from the reinsurer by the insurance company (or its statutory receiver) will be paid instead directly to the policyholder, claimant, or other payee, as specified in the endorsement, by the reinsurer. The term is distinguished from an assumption. See Assumption of Liability Endorsement.

Deficit Carry Forward (DCF): The transfer of deficit or loss from one accounting period, as defined within the reinsurance agreement, to the succeeding accounting period under the existing contract or the replacing contract.

Deficit and Credit Carry Forward (DCCF): Some adjustment features of reinsurance contracts allow for both a deficit and credit carry forward. See Deficit Carry Forward and Credit Carry Forward.

Deposit Premium: The amount of premium (usually for an excess of loss reinsurance contract), that the ceding company pays to the reinsurer on a periodic basis (usually quarterly) during the term of the contract. This amount is generally determined as a percentage of the estimated amount of premium that the contract will produce based on the rate and estimated subject premium. It is often the same as the minimum premium but may be higher or lower. The deposit premium will be adjusted to the higher of the actual developed premium or the minimum premium after the actual subject premium has been determined.

Direct Writing Reinsurer: A reinsurance company that transacts business directly with a ceding company and does not (ordinarily) accept business from a broker or intermediary.

Dodd-Frank Act: The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was passed as a response to the late-2000s financial crisis, and is intended to improve financial regulation in the U.S. to protect the strength and integrity of the financial markets. The Dodd-Frank Act established the FIO, included the NRRRA, and established the FSOC, which establishes a methodology for determining which financial institutions embody systemically important risk and should be subject to heightened regulation by the Federal Reserve Board, and the OFR (created to support the data collection and research efforts of the FSOC).

Drop-Down (also known as Second Event Retention): An approach to establishing the retention level in excess of loss reinsurance (usually catastrophe) under which the amount of the retention is reduced for the second (or subsequent) loss occurrence. The theory is that the ceding company can afford to retain a given retention level on one loss, but for additional loss(es) needs protection over the lower retention.

Earned Reinsurance Premium: A reinsurance term that refers to either 1) that part of the reinsurance premium applicable to the expired portion of the policies reinsured, or 2) that portion of the reinsurance premium which is deemed earned under the reinsurance contract.

EIOPA: The European Insurance and Occupational Pensions Authority is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament, the Council of the European Union and the European Commission.

Entire Agreement Clause: A clause in some reinsurance agreements providing that the reinsurance agreement constitutes the entire agreement between the parties with respect to its subject matter, superseding all previous contracts, written or oral; and that any prior statements, negotiations or representations between the parties are merged into the final, written agreement. The clause may also provide that any modifications or changes in the agreement must be in writing, and executed by both parties.

Estoppel (also known as Non-Waiver Clause): A provision in a reinsurance agreement which reserves to the reinsurer every right under the reinsurance agreement not previously waived, and to the ceding company every right which had not been forfeited.

Evergreen Clause: A term in a Letter of Credit providing for automatic renewal of the credit for an indefinite number of periods until the issuing bank informs its beneficiary of its final expiration.

Excess of Loss Ratio Reinsurance: A form of reinsurance also known as "aggregate excess of loss reinsurance" under which a reinsurer, subject to a specified limit, is liable for all losses, regardless of size, that occur after a specified loss ratio or total dollar amount of losses has been reached. See Aggregate Excess of Loss Reinsurance, Stop Loss Reinsurance.

Excess of Loss Reinsurance (also known as Non-Proportional Reinsurance): A form of reinsurance, which, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention. It includes various types of reinsurance, such as catastrophe reinsurance, per risk reinsurance, per occurrence reinsurance and aggregate excess of loss reinsurance.

Excess Per Risk Reinsurance: A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the ceding company against the amount of loss in excess of a specified retention for each risk involved in each occurrence.

Experience Rating: A method of determining the premium for a reinsurance contract based, in whole or in part, on the loss experience of the ceding company during prior or the current contract period(s) as specified in the reinsurance contract. See Rating.

Exposure Rating: See Rating.

Extended Reporting Period: An additional period of time affording coverage after termination of a claims-made policy during which a claim first made after such termination for injury or damage that occurs on or after the retroactive date, if any, but before the policy termination date is covered and may be reported. Also see Retroactive Date.

Extra-Contractual Obligations (ECO): In reinsurance and insurance, monetary awards or settlements against an insurer for its alleged wrongful conduct to its insured, generally arising out of claims handling. Such payments required of an insurer to its insured are extra-contractual in that they are not covered in the underlying contract.

Ex Gratia Payment: Latin: "by favor". A voluntary payment made by an insurer or reinsurer in response to a loss for which it is not technically obligated under the terms of its contract.

FACI: The Federal Advisory Committee on Insurance provides advice and recommendations to assist FIO in carrying out its statutory authority.

Facultative Certificate of Reinsurance: A contract formalizing a reinsurance cession on a specific risk.

Facultative Reinsurance: Reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the ability to accept or reject and individually price each risk offered by the ceding company.

Facultative Treaty: A reinsurance contract under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks. The contract merely reflects how individual facultative reinsurances shall be handled.

Facultative Obligatory Treaty (also known as Facultative Semi-Automatic Treaty, Facultative Semi-Obligatory Treaty): A reinsurance contract under which the ceding company can select and the reinsurer is obligated to accept cessions of risks of a defined class, provided the risks fall within the contract guidelines.

Financial Reinsurance: A form of reinsurance that considers the time value of money and has loss containment provisions transacted primarily to achieve financial goals, such as capital management, tax planning, or the financing of acquisitions. Also see Finite Reinsurance.

Finite Reinsurance (also known as Financial Reinsurance, Limited Risk Reinsurance, Nontraditional Reinsurance, Structured Reinsurance): A broad spectrum of treaty reinsurance arrangements that provide reinsurance coverage at lower margins than traditional reinsurance, in return for a lower probability of loss to the reinsurer. This reinsurance is often multi-year and often provides a means of sharing positive or negative claims experience with the cedent beyond that usually provided by traditional reinsurance.

FIO: The Federal Insurance Office, established by the Dodd-Frank Act, was created to provide federal oversight of the insurance and reinsurance industries, although FIO does not have regulatory authority. FIO, along with state insurance regulators, participates at the IAIS on international regulatory issues and has the express authority, along with U.S. Trade Representative, to negotiate covered agreements with one or more foreign jurisdictions on prudential matters with respect to the business of insurance or reinsurance. FIO is also tasked with the development of various reports to Congress on insurance issues, including how to modernize the U.S. system of regulation, a report on the global reinsurance market, and a report on the impact of the NRRRA on state insurance regulators.

Flat Rate: See Rating.

Follow the Fortunes: Follow the fortunes generally provides that a reinsurer must follow the underwriting fortunes of its reinsured and, therefore, is bound by the decisions of its reinsured in the absence of fraud, collusion or bad faith. It requires a reinsurer to accept a reinsured's good faith, business-like reasonable decision that a particular risk is covered by the terms of the underlying policy. The term is often used interchangeably with follow the settlements, and there may be overlap between the affect of follow the fortunes and follow the settlements when the "risk" is what generated the loss. Follow the fortunes is focused on "risk" determination, not necessarily tied to a loss settlement.

Follow the Settlements: Follow the settlements generally provides that a reinsurer must cover settlements made by the reinsured in a business-like manner, provided the settlement is arguably within the terms of the reinsured's policy and the reinsurance agreement and the settlement is not affected by fraud, collusion or bad faith. It is an expectation that the reinsurer will abide by the reinsured's good faith determination to settle, rather than litigate, claims under a reinsured policy and not re-litigate a reinsured's settlements ceded to the reinsurance agreement. The term is often used interchangeably with follow the fortunes, and there may be overlap between the affect of follow the settlements and follow the fortunes when the "risk" is what generated the loss. Follow the settlements is focused on "loss settlement", not necessarily tied to a "risk determination" arising out of follow the fortunes. Follow the settlements will not supersede the express terms and conditions of the reinsurance agreement.

Foreign Insurance Company: A U.S. domiciled insurer which is domiciled (incorporated) in a state other than the jurisdiction of the insured.

Fronting: Arrangements by which an insurer, for a specified fee or premium, issues its policies to cover certain risks underwritten or otherwise managed by another insurer or reinsurer. The insurer then transfers all, or substantially all, of the liabilities thereunder to such insurers by means of reinsurance.

FSAP: The Financial Sector Assessment Program of the International Monetary Fund is a comprehensive assessment of a country's financial sector. This includes a financial stability assessment and, in developing and emerging markets, a financial development assessment. In jurisdictions with financial sectors deemed by the IMF to be systemically important, financial stability assessments under the FSAP are a mandatory part of surveillance under the IMF's Articles of Agreement, and are supposed to take place every five years; for all other jurisdictions, participation in the program is voluntary. In developing and emerging market countries, FSAPs are conducted jointly with the World Bank.

FSB: The Financial Stability Board was established by the G-20 countries to coordinate the work of national financial authorities and international standard setting bodies at the international level and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability.

FSOC: The Financial Stability Oversight Council, established under the Dodd-Frank Act, provides comprehensive monitoring of the stability of the United States' financial system. The Council is charged with identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging risks to the stability of the United States' financial system. The Council consists of 10 voting members and 5 nonvoting members and brings together the expertise of federal financial regulators, state regulators, and an independent insurance expert appointed by the President. The independent insurance expert is a voting member, appointed by the President and confirmed by the Senate for a six-year term. The Director of FIO and a state insurance commissioner selected by the state insurance commissioners (through the NAIC) serve as non-voting members.

FSSA: Financial System Stability Assessment, a written document prepared at the conclusion of each country's FSAP by the International Monetary Fund.

Funded Cover: See Rating.

Funds Withheld: See Rating.

G20: The Group of 20 is the name given to the group of 20 finance ministers and central bank governors from 20 of the world's largest economies. It includes 19 countries and the E.U. (which itself is composed of 27 member states). A list of G20 companies can be found at: https://www.g20.org/about_g20/g20_members.

G-SIFI: Global systemically important financial institution, as determined by the FSB. The FSB defines G-SIFIs as "institutions of such size, market importance, and global interconnectedness that their distress or failure would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries."

G-SII: Global Systemically Important Insurer: Global systemically important insurer, as determined under the IAIS's assessment methodology. G-SIIs are one class of G-SIFIs.

Gross Line: The total limit of liability accepted by an insurer on an individual risk (net line plus all reinsurance ceded).

Ground Up Loss: The total amount of loss sustained by the ceding company before taking into account the credit(s) due from reinsurance recoverable(s).

IAIS: The International Association of Insurance Supervisors, established in 1994, represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries, constituting 97% of the world's insurance premiums. The IAIS acts as the global standard setter for insurance regulation. The IAIS issues Principles, Standards and Guidance to help insurance supervisors set regulations and carry out their role in supervising insurance companies.

ICPs: Insurance Core Principles, Standards, Guidance and Assessment Methodology established by the IAIS to provide uniform international standards and guidance for the regulation of the insurance industry. The IAIS encourages members to have the 26 ICPs incorporated or reflected in all of its members' regulatory frameworks. Although not binding on IAIS member jurisdictions, the ICPs are used by the IMF as a basis for carrying out assessments of the insurance sector under the Financial Sector Assessment Program (FSAP).

IMF: International Monetary Fund, an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Incurred But Not Reported (IBNR): An actuarial estimate of amounts required to pay ultimate net losses that refers to losses that have occurred but have not yet been fully and finally settled/paid. IBNR has two components: (1) a provision for loss and loss adjustment expense ("LAE") reserves in excess of the current reserves on individual claims that have been reported during the accounting period but which have not yet been paid in full, reflecting the potential increase in the value of these claim values when they are ultimately paid (IBNER - see below); (2) a provision for loss and LAE reserves on claims that have occurred but have not yet been reported during the accounting period (IBNYR - see below).

Incurred But Not Enough Reported (IBNER): A provision in claims and losses already reported but which have not yet been paid in full for potential increases in the value of these claims when they are ultimately paid; decreases can occur, although infrequently. It is created because reported claims reserves tend to increase from the time a claim occurs until the claim is settled. Changes in insurance company case reserves, during the accounting period and established by judgment and/or formula, often result from a lag in information on liability and damages.

Incurred But Not Yet Reported (IBNYR): A provision for loss reserves and LAE on losses and claims that have occurred but have not been made known to the insurer.

Incurred Loss (also known as Loss Incurred): For a specific reinsurance period (typically annual) incurred loss is calculated as paid losses during the period, plus outstanding loss at the end of the period, minus outstanding losses at the beginning of the period irrespective of when the loss actually occurred or when the original policy attached. Example: For the period 1/1/XX - 12/31/XX, if outstanding losses at 1/1 are 15, paid losses during the year are 20, and outstanding losses at 12/31 are 12, then Incurred loss for the period 1/1/XX - 12/31/XX = 17 (32-15)

Indexing/Indexation: A provision, typically in an excess of loss reinsurance contract, whereby the ceding company agrees to share the excess reinsurer's (leveraged) inflation risk. It typically involves a publically recognized measure of inflation (e.g., wage inflation index) that is used as a trigger mechanism to adjust the excess of loss retention thus allowing changes in inflation to be more equitably shared by the cedent and the excess reinsurer. This sharing of inflation risk may be recognized in the price of the excess of loss reinsurance.

Insolvency Clause: A provision appearing in most reinsurance contracts (because most if not all states require it) stating that in the event the reinsured is insolvent the reinsurance is payable directly to the company or its liquidator without reduction because of its insolvency or because the company or its liquidator has failed to pay all or a portion of any claim.

Interest and Liabilities Agreement: A reinsurance contract between the ceding insurer and one or multiple reinsurers in which the percentage of participation of each reinsurer is specified.

Interlocking Clause: A provision in a reinsurance agreement designed to allocate loss from a single occurrence between two or more reinsurance contract periods. The provision prorates the reinsured's retention and reinsurance coverage between two or more reinsurance agreement periods, i.e., when one loss affects policies assigned to different reinsurance periods, so that the company will have one retention and one recovery for the loss involving the two reinsurance periods.

Intermediary Clause: A contractual provision in U.S. reinsurance agreements in which the parties agree to effect all transactions through an intermediary and the credit risk of the intermediary, as distinct from other risks, is imposed on the reinsurer. Most intermediary clauses shift all credit risk to reinsurers by providing that (1) the ceding company's payments to the intermediary are deemed payments to the reinsurer, (2) the reinsurer's payments to the intermediary are not payments to the ceding company until actually received by the ceding company. This clause is mandatory in some states.

International Capital Standard (ICS): The ICS is the proposed permanent international capital standard that is intended to apply to all IAIGs. The goal is to develop a global capital standard that will allow comparability of insurers' capital position so that international insurance supervisors can understand and rely on for solvency regulation.

IMF: International Monetary Fund: International Monetary Fund, an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

IRIS (Insurance Regulatory Information System) Tests: A series of financial tests developed by the National Association of Insurance Commissioners (NAIC) under its Insurance Regulatory Information System (IRIS) to assist states in overseeing the financial soundness of insurance companies.

Inuring Reinsurance: For a particular reinsurance contract a designation of other reinsurance contracts which are first applied pursuant to the terms of the particular reinsurance agreement to reduce the loss subject to the particular reinsurance agreement. In essence these other "inuring" reinsurances insulate the particular reinsurance contract to which they inure. If the other reinsurances are to be disregarded as respects loss to that particular agreement, they are said to inure only to the benefit of the reinsured. Example: A ceding insurer has a 50% quota share agreement and a per occurrence excess of loss contract (i.e., catastrophe reinsurance) for \$80 million excess of \$20 million. A catastrophe loss of \$100 million occurs. If the quota share contract inures to the benefit of the catastrophe reinsurer, then the gross loss of \$100 million is first allocated to the quota share reinsurer who pays \$50 million, then the ceding insurer bears the \$20 million catastrophe retention, and the catastrophe reinsurer indemnifies the ceding insurer to the extent of \$30 million. If the quota share did not inure to the benefit of the catastrophe reinsurer then the catastrophe reinsurer would have had a loss of \$80 million after the \$20 million retention of the ceding insurer and the QS cession would then apply to the remaining \$20 million netting the cedent's loss to \$10million.

Joint Account Reinsurance: See Common Account Reinsurance.

Letter of Credit (LOC): A financial instrument obtained from a bank that guarantees the availability of funds to be collected in the future under a reinsurance contract. In the noncommercial setting, these are known as standby credits in the event of non-performance by the obligor. Uniform Custom and Practices for Document Bearing Credits (2007 rev.) ICC, Pub. No. 600. See also Evergreen Clause.

Limited Risk Reinsurance: See Financial Reinsurance, Finite Reinsurance, Nontraditional Reinsurance, Structured Reinsurance.

Line of Business: The general classification of business designated by the National Association of Insurance Commissioners (NAIC) utilized in the insurance industry to identify the major segments of policies that are sold to the general public, i.e., fire, allied lines, homeowners, other liability, products liability, auto liability, etc. These are often referenced in the "Business Covered" article of reinsurance treaty contracts to designate the classes of business covered by the treaty. Many of these general classifications have one or more sub-classifications.

Line Guide: See Line Sheet.

Line Sheet (also known as Line Guide): A schedule included in a reinsurance treaty contract showing the limits of liability to be written by a ceding company for different classes of risk and (usually) also showing the amount of each respective limit (stated as a number of "lines") which can be ceded to proportional reinsurance treaties.

Loss Adjustment Expense (LAE): The expense incurred by the ceding insurer in the defense, cost containment and settlement of claims under its policies. It is normally broken down into two categories: Allocated (ALAE) and Unallocated (ULAE). ALAE are those expenses that are directly related to (or "allocated" to) a specific claim such as the legal defense of a liability claim. These are typically covered by a reinsurance contract as a component of reinsured "loss". The elements of loss adjustment expenses that are covered by the reinsurance as loss are specified in the terms of the reinsurance agreement and may be treated on a proportional basis (the ALAE is shared by the cedent and reinsurer in the same proportion as they share the indemnity loss) or it may simply be added to the indemnity loss for reinsurance recovery purposes.

By contrast, ULAE are claim expenses that are not directly related to a specific claim and are considered part of the ceding insurer's overhead and cost of doing business. They are not subject to reinsurance recovery as loss, but may be considered in determining a commission to be paid by the reinsurer to the ceding company (ceding commission) to help offset the ceding company's expenses.

Loss Conversion Factor (also known as Loss Loading or Multiplier): A factor applied to the anticipated projected losses (or loss cost) for an excess of loss reinsurance agreement in order to develop the reinsurance premium (or rate). This factor provides for the reinsurer's loss adjustment expense, overhead expense, and profit margin as well as the perceived "riskiness" of the loss projection, i.e. the degree to which the loss projection lacks confidence or credibility. See also Rating.

Loss Corridor: A mechanism contained in a proportional or an excess of loss agreement that requires the ceding insurer to be responsible for a certain amount of ultimate net loss above the company's designated retention and below the designated reinsurance limit, and which would otherwise be reimbursed under the reinsurance agreement. A loss corridor is usually expressed as a loss ratio percentage of the reinsurer's earned premium, or a combined ratio if the reinsurance agreement provides for a ceding commission to the company. Loss corridors are employed to mitigate the volatility or variability of reinsurance loss projections and pricing risk and to enhance the alignment of interests of the ceding insurer and the reinsurer.

Loss Development: The process of change in the value of claims over time until the claims are fully settled and paid. It is measured by the difference between paid losses and estimated outstanding losses at some subsequent point in time (usually 12 month periods), and paid losses and estimated outstanding losses at some previous point in time. In common usage it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims.

Loss in Excess of Policy Limits: An amount of loss which exceeds the original policy limits, but is otherwise covered under the policy, for which the insurer is potentially responsible by reason of its action or omissions, including failure to settle within the policy limits, in defending the insured under the policy. Typically an Excess Policy Limits loss is awarded by a court after an insured brings suit against its insurance carrier.

Loss Incurred: See Incurred Loss.

Loss Loading or Multiplier: See Loss Conversion Factor.

Loss Portfolio: See Loss Portfolio Transfer.

Loss Portfolio Transfer: A financial reinsurance transaction in which loss obligations that are already incurred and which are expected to ultimately be paid are ceded to a reinsurer. In determining the premium paid to the reinsurer, the time value of money is considered, and the premium is therefore less than the ultimate amount expected to be paid. The difference between the premium paid for the transaction and the amount reserved by the cedent is the amount by which the cedent's statutory surplus increases. Other terms used in context with Lloyd's contracts are loss portfolio-rollover and reinsurance to close. Regulations apply to these transactions to ensure that sufficient underwriting risk is transferred by the ceding insurer to the reinsurer. Loss portfolio transfers may be used when an insurer is exiting a line of business, for certain long tail occurrence claims, or in mergers and acquisitions.

Losses Occurring During (See also Basis of Attachment - Accident Year): The provision in a reinsurance contract that designates that the losses to which the reinsurance applies are those losses that actually happen during the term of the reinsurance even if the original policies that cover the losses are issued (as new or renewal policies) prior to the inception of the reinsurance contract. See also Policies Attaching.

Loss Rating: See Rating.

Management Fee Expense (also may be known as Reinsurance Home Office Expense [RHOE], Reinsurer's Expense, or Reinsurer's Load): A deduction usually expressed as a percentage of ceded premium, in a calculation of profit or contingent commission. The amount is intended to account for the reinsurer's internal expenses.

Maximum Foreseeable Loss / Probable Maximum Loss (PML): The worst loss that is foreseeable or probable to occur because of a single event. This term is typically used in property reinsurance.

Maximum Possible Loss: The worst loss that could possibly occur because of a single event. This term is typically used in property reinsurance.

Mediation: A form of alternative dispute resolution in which the parties agree to submit any dispute to a neutral mediator, whose purpose and goal is to achieve a mutually acceptable settlement and compromise of the dispute, rather than issue a formal ruling and decision on the merits as occurs in arbitration. Depending upon the parties' agreement, the results of mediation can be binding or non-binding.

Minimum Premium: An amount of premium which will be charged (usually for an excess of loss reinsurance contract), notwithstanding that the actual premium developed by applying the rate to the subject premium could produce a lower figure. See Deposit Premium.

Mortgagee Endorsement: An endorsement to an insurance policy covering the policyholder's mortgaged property to provide that, in the event of the insolvency of the insurance company, the reinsurer shall pay directly to the mortgagee and/or the policyholder the amount of loss that would have been recovered from the reinsurer by the insurance company. The endorsement may provide that the reinsurer will pay the full loss amount in accordance with the insurance protection afforded by the insurance company. Similar in concept to the Cut-Through Endorsement.

National Association of Insurance Commissioners (NAIC): An association of the chief insurance regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, North Mariana Island, Puerto Rico and the Virgin Islands.

NBCR: An acronym referring to nuclear, biological, chemical and radiological exposures, which may be defined in the reinsurance agreement, for purposes of excluding, limiting or providing reinsurance coverage. This term is most often used in connection with defining what, if any, reinsurance coverage is provided for losses resulting from terrorism events.

Net Retained Liability: The amount of insurance that a ceding company keeps for its own account and does not reinsure in any way. It is the amount of loss that a cedent retains after all available reinsurance recoveries (except in some instances for catastrophe reinsurance). See also Net Loss.

Net Loss: The amount of loss sustained by an insurer after making deductions for all recoveries, salvage and all claims upon reinsurers, with specifics of the definition derived from the reinsurance agreement. See also Net Retained Liability.

Nine-Months Rule: A contract signature rule adopted by the National Association of Insurance Commissioners generally imposing a nine-month time limit from the effective date of the treaty reinsurance agreement to the time when the treaty reinsurance contract must be actually executed by the ceding company and the reinsurer or, in the case of multiple reinsurers, the lead designated reinsurer. The rule enables the ceding company to comply with statutory and/or regulatory requirements and receive accounting treatment as prospective, as opposed to retroactive reinsurance.

Ninety-Day Rule: An account balance aging rule established by the National Association of Insurance Commissioners that provides that an insurer or reinsurer must age certain balances on Schedule F of the annual statement for reinsurance recoverables over ninety days past due for which the company may need to establish an uncollectible provision.

Non-Admitted Reinsurance: Reinsurance placed with a reinsurer that does not have authorized or equivalent status in the jurisdiction of domicile of the ceding company and for which the ceding insurer may not take accounting credit in the ceding insurer's Annual Statement without the reinsurer posting security. See also Admitted Reinsurance.

NRRA: The Non-Admitted and Reinsurance Reform Act: Part of the Dodd-Frank Act, is a federal effort to streamline state regulation of U.S. reinsurers. The reinsurance section of the NRRA provides in relevant part that: (1) the cedent's domiciliary regulator is the sole decision maker of that company's credit for reinsurance; (2) states cannot apply their insurance laws on an extraterritorial basis; and (3) the reinsurer's domiciliary regulator is the sole regulator of its solvency.

Non-Proportional Reinsurance: See Excess of Loss Reinsurance.

Nontraditional Reinsurance: See Financial Reinsurance, Finite Reinsurance, Limited Risk, Structured Reinsurance, Reinsurance.

Non-Waiver Clause: See Estoppel.

Novation: A three party reinsurance transaction wherein a new party "steps into the shoes" of the party to an existing contract. The substitution of a new contract, debt or obligation for an existing one, between the same or different parties. A novation may substitute a new party and discharge one of the original parties to a contract by agreement of all parties. The requisites of a novation are 1) a previously valid obligation; 2) an agreement of all the parties to a new contract; 3) the extinguishment of the old obligation; and 4) the validity of the new obligation.

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Obligatory Treaty: A reinsurance contract under which the subject business must be ceded by the insurer in accordance with contract terms and must be accepted by the reinsurer.

Occurrence: A frequently used term in reinsurance referring to an incident, happening or event which triggers coverage under an occurrence-based reinsurance agreement. The definition of an occurrence will vary, depending upon the intent and interests of the parties and may not necessarily match the definition of occurrence in the original policy

Occurrence Coverage: A policy covering claims that arise out of damage or injury that took place during the policy period (or reinsurance contract period when used to describe reinsurance coverage) regardless of when claims are made. Most commercial general liability insurance is written on an occurrence form. Contrast with Claims-Made coverage.

Occurrence Limit: A provision in most property per risk reinsurance contracts that limits the reinsurer's liability for all risks involved in one occurrence. See Occurrence.

Offset (also known as Setoff): The netting of amounts due between two parties as provided for by common law, contract law, statutory law, regulatory law and/or judicial law. Some reinsurance contracts contain a mutual right of offset, while others may operate only for one party's benefit or remain silent. Offset may be allowed under all contracts between the parties or only under that specific contract. State insurance rules may address offset in insolvency.

OFR: The Office of Financial Research, created by the Dodd-Frank Act, is tasked with supporting the efforts of the FSOC in monitoring systemic risk, collecting and assessing data, performing applied research on these issues and developing tools for risk measurement and monitoring.

Original Conditions Clause: A provision in a reinsurance agreement which incorporates by reference all of the terms (as well as amendments, modifications, alterations and waivers) of the original policy written by the ceding company that are not otherwise addressed in the reinsurance agreement. See also Follow the Fortunes.

Outstanding Cash Advance ("O.C.A."): A method of funding by the reinsurer using a cash advance in connection with a securitization provision contained in a reinsurance agreement requiring the reinsurer to secure its outstanding obligations under the agreement as of a particular point in time. The cash advance is held by the company in trust for the reinsurer in an interest bearing account or invested by the company in acceptable securities. The amount of the cash advance is subject to adjustment at given intervals as the reinsurer's obligations change, as defined in the securitization provision. Generally, should the reinsurer fail to perform its payment obligations under the reinsurance agreement, the company may utilize the outstanding cash advance to meet such obligations. Also see Trust and Unauthorized Reinsurance.

Outstanding Loss Reserve (OLR, O/S): For an individual claim, an estimate of the amount the insurer expects to pay for the reported claim, prior to the final settlement of the claim. For total claims, estimates of expected payments for all reported and unreported claims. May include amounts for loss adjustment expenses. See Incurred But Not Reported (IBNR), Incurred Losses and Loss Development.

Over-Line: The amount of insurance or reinsurance that exceeds the insurer's or reinsurer's normal capacity. This is inclusive of automatic reinsurance facilities.

Overriding Commission: In reinsurance or retrocession business (typically proportional treaties) an allowance paid to the ceding company over and above the actual acquisition and related cost to produce and underwrite the original business.

Participating Reinsurance (also known as Proportional, Pro Rata Reinsurance, Quota Share):
A generic term describing all forms of quota share and surplus reinsurance in which the reinsurer shares a pro rata portion of the losses and premiums of the ceding company.

Payback: A method of reinsurance rating under which the price is based on how frequently a limit loss might occur over a period of time based on historical or projection indications. Thus, if the indicated or projected loss would occur only once in five years, the price would be set (without regard to expenses and profit margins) to be equal to the limit divided by five and the contract would thus be said to have a "five year payback." Inverse calculation with Rate on Line.

Placement Slip: A temporary agreement outlining reinsurance terms and conditions for which coverage has been effected, pending replacement by a formal reinsurance contract. Also known as a binder, confirmation, slip and in some circumstances, cover note. The use of placement slips has been reduced as a result of "contract certainty" and other "full contract at inception" initiatives.

Pool: See Association, Syndicate.

Policies Attaching (See also Basis of Attachment Underwriting Year): The provision in a reinsurance contract that designates that the losses to which the reinsurance applies are those losses that are covered under those original policies that are issued (as new or renewal policies) during the term of the reinsurance even if the actual date of the original loss happened after the termination of the reinsurance contract. See also Loss Occurring During.

Portfolio: A reinsurance term that defines a body of: 1) insurance (policies) in force (premium portfolio), 2) outstanding losses (loss portfolio), or 3) company investments (investment portfolio). The reinsurance of all existing insurance, as well as new and renewal business, is therefore described as a running account reinsurance with portfolio transfer or assumption.

Portfolio Reinsurance: The transfer of portfolio via a cession of reinsurance; the reinsurance of a runoff. Only policies in force (or losses outstanding) are reinsured, and no new or renewal business is included. Premium or loss portfolios, or both, may be reinsured. The term is sometimes applied to the reinsurance by one insurer of all business in force of another insurer retiring from an agency from a territory or from the insurance business entirely.

Portfolio Return: If the reinsurer is relieved of liability (under a pro rata reinsurance) for losses happening after termination of the treaty or at a later date, the total unearned premium reserve on business left unreinsured (less ceding commissions thereon) is normally returned to the cedent. Also known as a return portfolio or return of unearned premium.

Portfolio Run-Off: Continuing the reinsurance of a portfolio until all ceded premium is earned, or all losses are settled, or both. While a loss runoff is usually unlimited as to time, a premium run-off can be for a specified duration.

Premium Base: See Base Premium, Subject Premium, Underlying Premium.

Primary: In reinsurance, this term is applied to the nouns: insurer, insured, policy and insurance and means respectively: 1) the insurance company that initially originates the business, i.e., the ceding company; 2) the policyholder insured by the primary insurer; 3) the initial policy issued by the primary insurer to the primary insured; 4) the insurance covered under the primary policy issued by the primary insurer to the primary insured (sometimes called "underlying insurance").

Priority: The term used in some reinsurance markets outside the U.S. to mean the retention of the primary company in a reinsurance agreement.

Profit Commission: A commission feature whereby the cedent is allowed a commission based on the profitability of the reinsurance contract after an allowance for the reinsurer's expense and profit margin.

Proportional Reinsurance: See Quota Share, Pro Rata Reinsurance, Surplus Reinsurance.

Pro Rata Reinsurance (also known as Quota Share, Proportional, or Surplus Reinsurance): A generic term describing all forms of quota share and surplus reinsurance in which the reinsurer shares a pro rata portion of the losses and premiums of the ceding company.

Prospective Rating: See Rating.

Provisional Rate, Premium, or Commission: Tentative amounts applicable to either rate, premium or commission set at the start of the contract and subject to subsequent adjustment.

Pure Loss Cost: See Burning Cost.

Quota Share Reinsurance: A form of pro rata reinsurance (or proportional reinsurance) indemnifying the ceding company for an established percentage of loss on each risk covered in the contract in consideration of the same percentage of the premium paid to the ceding company. This may also be known as "first dollar ground up" reinsurance although it can be used for "Excess" original business such as original Umbrella or Excess policies.

Rate: The percent or factor applied to the ceding company's subject premium that results in the reinsurance premium for excess of loss reinsurance.

Rate On Line: A percentage derived by dividing reinsurance premium by reinsurance limit; the inverse is known as the payback or amortization period. For example, a \$10 million catastrophe cover with a premium of \$2 million would have a rate on line of 20 percent and a payback period of 5 years.

Rating/Pricing: There are two basic approaches for pricing of reinsurance contracts : exposure rating and experience rating. Both methods can be used as separate rating approaches or may be weighted together to calculate the expected loss for a contract that is then used as the basis for pricing the reinsurance.

Experience Rating (also known as Loss Rating): An approach by which the expected loss is determined based on the ceding company's historical loss experience, actual and reconstructed (e.g., trended, developed - brought to current levels).

Exposure Rating: An approach by which the expected loss is determined based on analysis of the exposure (e.g., limits, classes, etc) inherent in the business being covered by the contract based on industry experience for the same type of business (rather than on the actual historical loss experience of the company).

Flat Rate: 1) A fixed insurance premium rate not subject to any subsequent adjustment. 2) A reinsurance premium rate applicable to the entire premium income derived by the ceding company from the business ceded to the reinsurer as distinguished from a rate applicable to excess limits.

Funded Cover: A type of excess of loss reinsurance agreement under which the reinsured company pays an agreed upon premium to build a fund (which is held by the insurer or reinsurer pursuant to the terms of the agreement) from which to pay covered losses. Since that fund reduces the reinsurer's risk that losses will exceed the fund, the Reinsurer agrees to accept a reduced reinsurance margin. Any excess monies in the fund will be returned to the appropriate party pursuant to the terms of the contract. Funded covers that do not transfer sufficient insurance risk to the reinsurer must be accounted for as deposits.

Funds Withheld: A provision in a reinsurance treaty under which the premium due the reinsurer is withheld and not paid by the ceding company to enable the ceding company to reduce its liability for unauthorized reinsurance with respect to credit for reinsurance in its statutory statement. Funds withheld may also be used to reduce the ceding company's exposure to credit risk from a reinsurer. The reinsurer's asset, in lieu of cash, is "funds held by or deposited with reinsured companies."

Prospective Rating (also known as Flat Rating): A formula for calculation of reinsurance premium for a specified period where a fixed rate is promulgated and the premium for the current period is calculated by multiplying the fixed rate by the current period subject premium.

Retrospective Rating (also known as Self Rating, Swing Rating, and Loss Rating): A formula for calculation of reinsurance premium for a specified period where a provisional rate is promulgated which is adjusted (subject to minimum and maximum) based on the current period actual loss experience. Premium for the current period is then calculated by multiplying the adjusted rate by the by the current period subject premiums.

Loss Loaded Rating (also known as Expense Loaded): A type of retrospective rate adjustment using the same period losses multiplied by a loss load and/or expense load.

Margin Plus Rating: A type of retrospective rate adjustment using the same period losses expressed as a ratio of earned premium for the same period plus a fixed margin.

Cessions Basis (also known as Cessions Made, Cessions Schedule): A reinsurance pricing mechanism used on casualty reinsurance contracts where a premium for each reinsured policy is ceded to Reinsurer individually based on the exposure of the policy limits to the reinsurance limits (usually based on Increased Limit Factors).

Reassured: See Cedent, Ceding Company, Reinsured.

Reciprocity: A mutual exchange of reinsurance between two or more companies.

Reinstatement Clause: A provision in a reinsurance contract stating that, when the amount of reinsurance coverage provided under a contract is reduced by the payment of loss as the result of one occurrence, the reinsurance coverage amount is automatically reinstated for the next occurrence, sometimes subject to the payment of a specified reinstatement premium. Reinsurance contracts may provide for an unlimited number of reinstatements or for a specific number of reinstatements. See Reinstatement Premium.

Reinstatement Cover: A type of reinsurance that provides a ceding company all or a portion of the ceding company's contract or program limits that were eroded under a reinstatement clause in the original reinsurance agreement. The reinstatement cover is normally a separate agreement and the term usually incepts immediately after the date of the last loss, running through the end of the original coverage period. Customarily, the reinstatement cover provides only a single limit and is not likely to include a reinstatement provision. For example, after the major windstorms of 2004 and 2005, ceding companies that sustained losses reinsured under their reinsurance contracts may have lacked sufficient reinsurance protection for the remainder of the year. In such an instance, those insurers might attempt to secure reinsurance to replace that no longer available under the original contracts.

Reinstatement Premium: An additional reinsurance premium that may be charged for reinstating the amount of reinsurance coverage reduced as the result of a reinsurance loss payment under a reinsurance contract, typically a "Cat" or "Clash" cover/program. See Reinstatement Clause.

Reinstatement Premium Cover: A contract that reimburses a ceding company for all or part of an additional premium that is or was required to be paid to the reinsurer to effect a reinstated limit on another contract or contracts, typically a "Cat" or "Clash" cover / program."

Reinsurance: The transaction whereby the assuming insurer ("reinsurer"), in consideration of premium paid, agrees to indemnify another insurer ("ceding company) against all or part of the loss which the latter may sustain under a specific policy or group of policies which it has issued.

Reinsurance Home Office Expense (RHOE): See Management Fee Expense, Reinsurer's Expense.

Reinsurance Premium: The consideration paid by a ceding company to a reinsurer for the coverage provided by the reinsurer.

Reinsured: See Cedent, Ceding Company, Reassured.

Reinsurer: The insurer that assumes all or a part of the insurance or reinsurance risk written by another insurer.

Reinsurer's Expense: See Management Fee Expense, Reinsurance Home Office Expense [RHOE].

Reports and Remittances Clause: The contract clause that specifies the types, timing and frequency of reports that are due to the reinsurer and usually outlines the format and content of the reports. Stipulates when adjustments and balances (if any) are due to either party.

Reserve: An amount which is established to provide for payment of a future obligation.

Retention: The amount of risk the ceding company keeps for its own account or the account of others.

Retroactive Date: The date on a claims made policy or reinsurance contract which triggers the beginning period of coverage for occurrences commencing prior to the effective date of the policy. A retroactive date is not required. If one is shown on a claims made policy, any claim made during the policy period on a loss that occurred before the retroactive date will not be covered. In reinsurance, losses occurring before the contract term are sometimes covered by the addition of "retroactive" coverage to the contract.

Retroactive Reinsurance: A contract that covers past insurable losses/losses that have already occurred, such as a loss portfolio transfer.

Retrocede: The action of a reinsurer of reinsuring another reinsurer for its liability assumed under one or more reinsurance contracts with primary insurance companies or with other reinsurers. The reinsurer seeking protection may purchase a reinsurance contract or contracts that will indemnify it within certain parameters for certain described losses it may incur under that reinsurance contract or contracts. This action is described as transferring the risk or a part of the risk. The reinsurer seeking protection (the buyer) is called the retrocedent and the reinsurer providing the protection (the seller) is called the retrocessionaire.

Retrocedent: A reinsurer who reinsures all or part of its assumed reinsurance with another reinsurer

Retrocession: The reinsuring of reinsurance. A reinsurance transaction whereby a reinsurer, known as a retrocedent, cedes all or part of the reinsurance risk it has assumed to another reinsurer, known as a retrocessionaire. See Reinsurance.

Retrocessionaire: A reinsurer who assumes reinsurance from another reinsurer.

Retrospective Rating (also known as Self Rating, Swing Rating): See Rating.

Risk: 1) A term which defines uncertainty of loss, chance of loss, or the variance of actual from expected results as it relates to coverage provided under an insurance or reinsurance contract. 2) Also, the term is used to identify the object of insurance protection, e.g., a building, an automobile, a human life, or exposure to liability. In property reinsurance, each ceding company customarily makes its own rules for defining a risk in its underwriting guidelines or "line guides". Some property reinsurance contracts contain definitions of what constitutes "a risk."

Risk Based Capital (RBC): A method utilized by insurance regulatory authorities to determine the minimum amount of capital required of an insurer to support its operations and write coverage. The insurer's risk profile (i.e., the amount and classes of business it writes) is used to determine its risk based capital requirement.

RBC Ratio Percentage: Current surplus measured to RBC. Company or regulatory action may be required at various levels.

Risk Transfer: A key element of reinsurance, whereby insurance risk is shifted from the reinsured to the reinsurer under a reinsurance agreement. In order for a reinsured to receive statutory and GAAP credit for reinsurance, a threshold of both underwriting risk and timing risk transfer must be achieved. See Risk.

Run-Off: A termination provision of a reinsurance contract that stipulates that the reinsurer remains liable for loss as a result of occurrences taking place after the date of termination for reinsured policies in force at the date of termination until their expiration or for a specified time period.

Schedule F: The schedule within the Annual Statement that provides information on a company's reinsurance transactions.

Second Event Retention: See Drop-Down.

Self Rating: See Retrospective Rating, Swing Rating.

Service of Suit Clause: A clause in U.S. reinsurance contracts, typically utilized for non-U.S. reinsurers, whereby the reinsurer agrees to submit to any court of competent jurisdiction in the United States, which provides a legal basis for the enforcement of arbitration awards. The clause names a U.S. agent to accept service of process on behalf of the reinsurer for purposes of the ceding company gaining U.S. jurisdiction against the reinsurer. It is not intended to supersede the contracting parties' obligation to arbitrate disputes, but to provide a mechanism to enforce awards.

Setoff: See Offset.

Severability Clause: A clause in some reinsurance agreements providing that, should any part of the agreement be found illegal or otherwise unenforceable, the remainder of the agreement will continue in force while the illegal part will be severed from the agreement, or in some cases, modified to remove the illegality. Severability may apply to the entire agreement or be limited to a specific provision that may present enforceability issues. For example, in jurisdictions where punitive damages are uninsurable, a severability clause in an Extra Contractual Obligations provision (or as a separate clause) will preserve the overall enforceability of the provision, even though a portion of the ECO provision has been invalidated.

Sidecar: A special purpose vehicle designed to allow investors to assume the risk and share in the profits or losses on a group of insurance policies (a "book of business") written by a particular insurer or assumed by a particular reinsurer (collectively "re/insurer"). A re/insurer will usually only cede the premiums associated with a book of business to such an entity if the investors place sufficient funds in the vehicle to ensure that it can meet claims if they arise. Typically, the liability of investors is limited to these funds. The vehicle is often formed as an independent company and to provide additional capacity to the re/insurer to write property catastrophe business or other short tail lines. The original capacity is usually provided through a quota share or similar type arrangement. The re/insurer normally charges a fee (ceding commission) for originating and managing the sidecar business and may sometimes also receive a profit commission if the book of business is profitable. Because the investors' capital is usually intended to be invested in this vehicle for a short-term, the sidecar has a limited existence, often for only one year, after which investors may withdraw their investment. These structures have become quite prominent in the aftermath of Hurricane Katrina as a vehicle for re/insurers to add risk bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases in re/insurance.

Sliding Scale Commission: A commission adjustment on earned premiums whereby the actual commission varies inversely with the loss ratio, subject to a maximum and minimum.

SMI (Solvency Modernization Initiative): The NAIC's Solvency Modernization Initiative, which began in 2008, is "a critical self-examination of the United States' insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation." The SMI is focused on five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues.

Solvency II: An initiative of the E.U. to undertake a "fundamental review of the capital adequacy regime for the European insurance industry." It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. The Solvency II Directive is intended to become effective on January 1, 2016.

Special Acceptance: The specific agreement by the reinsurer, upon the request of the cedent, to include under a reinsurance contract a risk not normally included within the terms of the contract. Special acceptance is generally covered in a special acceptance provision.

Special Termination Clause: A clause found in reinsurance contracts providing that, upon the happening of some specified condition or event, such as the insolvency, merger, loss in credit rating or decline in policyholder surplus of one party, the other party may fully terminate the contract earlier than would otherwise be required, had such condition or event not happened. The clause should state which party may initiate the termination, the notice requirements, the triggering conditions or events necessary, the effective date of termination, and the method of terminating existing business (i.e., whether on a cut-off or run-off basis). Termination by the reinsurer of a contract may be detrimental to the liquidation of a ceding company and may be rejected by regulators.

Standard Premium: The insurance premium determined on the basis of the insurer's authorized rates multiplied by the experience modification factor. The standard premium is usually not the final premium that the insured pays. It excludes the effects of some pricing programs, such as premium discounts, schedule rating, deductible credits, retrospective rating, and expense constants that are reported in statistical classes.

Statutory Annual Statement: See Annual Statement, Convention Blank.

Stop Loss Reinsurance: See Aggregate Excess of Loss Reinsurance or Excess of Loss Ratio Reinsurance.

Structured Reinsurance: See Financial Reinsurance, Finite Reinsurance, Limited Risk Reinsurance, Nontraditional Reinsurance.

Structured Settlements: The settlement of a casualty or workers' compensation claim involving periodic annuity payments over an extended period of time, rather than in one up-front, lump sum cash payment. There may be certain advantages to a claimant under a structured settlement, including tax treatment of interest under the Internal Revenue Code, that are not present under a lump sum cash settlement. Structured settlements are designed to guard against the early dissipation of settlement proceeds by recipients, who are often minors or those in need of life-time care as a result of their injuries.

Subject Premium: See Base Premium, Premium Base, Underlying Premium.

Subrogation: The assignment of a contractual right of an insured or reinsured by terms of the policy or a contract or by law, after payment of a loss, of the rights of the insured to recover the amount of the loss from one legally liable for it. The ceding insurer and reinsurer can agree how subrogation rights and recoveries will be addressed and handled under the reinsurance agreement.

Sunrise Clause: A clause in casualty reinsurance contracts that provides coverage for losses reported to the reinsurer or the company, as applicable, during the term of the current reinsurance contract, but resulting from occurrences that took place during a prior period. Sunrise clauses are used to reactivate coverage that no longer exists due to the existence of a sunset clause. See Sunset Clause.

Sunset Clause: A clause in casualty reinsurance contracts that provides that the reinsurer will not be liable for any loss that is not reported to the reinsurer within a specified period of time (typically 5, 7 or 10 years) after the expiration of the reinsurance contract. See Sunrise Clause.

Surplus Reinsurance (also known as Surplus Share Reinsurance or Variable Quota Share Reinsurance): A form of pro rata reinsurance under which the ceding company cedes that portion of its liability on a given risk which is greater than the portion of risk the cedent retains (i.e., net line), and the premiums and losses are shared in the same proportion as the ceded amount bears to the total limit insured on each risk.

Surplus Share Reinsurance: See Surplus Reinsurance, Variable Quota Share Reinsurance.

Swing Rating: See Rating- Retrospective Rating.

Syndicate (See Association, Pool.): Lloyd's Syndicate refers to an entity composed of corporate and/or individual members formed for the purpose of underwriting insurance and/or reinsurance at Lloyd's, London.

Target Risk: In property reinsurance, certain risks (for example, particular bridges, tunnels, fine arts collections, and property of similarly high value and exposure) that are expressly excluded from coverage under reinsurance treaties. Such risks may require individual acceptance under facultative contracts.

Term Contract: A form of reinsurance contract written for a stipulated term (usually one year). The contract automatically expires at the end of the term and renewal must be negotiated. See also Continuous Contract.

Total Insurable Value (TIV): The total values for insured perils and coverages for a particular risk, whether or not insurance limits have been purchased to that amount.

Total Insured Value Clause: An exclusion that prevents a reinsurer's over-lining on a single large risk (usually excess of \$250 million) caused by a potential accumulation of property limits from two or more ceding companies. The customary exception to the exclusion applies to risks insured 100 percent by one insurer or specifically listed classes (such as apartments, offices, hotels, hospitals, etc.).

Treaty: A reinsurance contract under which the reinsured company agrees to cede and the reinsurer agrees to assume a portfolio of risks of a particular class or classes of business.

Treaty Experience: Accident Year. See Basis of Attachment/Experience.

Underwriting Year: See Basis of Attachment/Experience.

Calendar Year: See Basis of Attachment/Experience.

TRIP: The Terrorism Risk Insurance Program was established with the passage of the Terrorism Risk Insurance Act in 2002. The program provides shared public and private compensation for certain insured losses resulting from a certified act of terrorism. TRIP was reauthorized, with modifications, in 2005, 2007 and 2015. The current expiration date of TRIP is December 31, 2020.

Trust Agreements: An agreement establishing a trust arrangement, which may be utilized as a mechanism by the reinsurer for purposes of securing its obligations to the ceding company to satisfy securitization requirements that might apply to the reinsurer under the terms of a reinsurance agreement.

Under the trust arrangement, a legal entity is created by a grantor (usually the reinsurer) for the benefit of a designated beneficiary (usually the ceding company). The trustee (generally a financial institution) holds a fiduciary responsibility to handle the trust's corpus assets and income for the economic benefit of the beneficiary, in accordance with the terms of the trust. In the event that the reinsurer defaults in its payment obligations to the ceding company under the terms of the reinsurance agreement, the trustee may release funds from the corpus of the trust to satisfy such obligations to the ceding company, in accordance with the terms of the trust. In reinsurance, such an agreement is typically established to permit a licensed ceding company to take credit for non-admitted reinsurance up to the value of the assets in the trust.

Ultimate Net Loss: 1) In reinsurance, the measure of loss to which the reinsurance applies, as determined by the reinsurance agreement. 2) In liability insurance, the amount actually paid or payable for the settlement of claims for which the reinsured is liable (including or excluding defense costs) after deductions are made for recoveries and certain specified reinsurance.

Unauthorized Reinsurance: See Non-Admitted Reinsurance.

Unearned Premium Portfolio: The sum of all unearned premium for in force policies of insurance under the reinsurance agreement, often with respect to a particular block, book or class of business during a particular period.

Unearned Premium Portfolio Rollover: A term describing an accounting transaction in which an unearned premium portfolio is carried forward from one accounting period to the following accounting period under an existing contract or a renewal.

Unearned Premium Reserve: The reserve amount included in the company's financial statements for unearned premiums with respect to the insurance policies or reinsurance agreements as of a particular point in time. Unearned premiums are the sum of all the premiums representing the unexpired portions of the policies or reinsurance agreements which the insurer or reinsurer has on its books as of a certain date.

Underlying: The amount of insurance or reinsurance on a risk (or occurrence) that applies to a loss before the next higher excess layer of insurance or reinsurance attaches.

Underlying Premium: See Base Premium, Premium Base, Subject Premium.

Underwriting Capacity: The maximum amount of money an insurer or reinsurer is willing to risk in a single loss event on a single risk or in the aggregate on all risks in a given period. This is the limit of capacity for an insurer or reinsurer that may also be imposed by law or regulatory authority. Common NAIC aggregate underwriting capacity is 3:1 (i.e. three dollars of premium for each dollar of surplus) depending on line of business. Many states also impose a per risk limit of 10% of surplus.

Underwriting Year Experience: See Basis of Attachment.

Unearned Reinsurance Premium: That part of the reinsurance premium applicable to the unexpired portion of the policies reinsured.

U.S.-E.U. Insurance Dialogue Project: A project begun in early 2012 between FIO and U.S. state regulators and the European Commission (EC) and the European Insurance and Occupational Pensions Authority (EIOPA). The stated objective is to increase mutual understanding and enhance cooperation between the E.U. and the U.S. to promote business opportunity, consumer protection, and effective supervision. The project includes a comparison of the E.U. and U.S. regimes on seven topics: (1) professional secrecy/confidentiality; (2) group supervision; (3) solvency and capital requirements; (4) reinsurance and collateral requirements; (5) supervisory reporting; (6) data collection and analysis; and (7) independent third party review and supervisory on-site inspections.

Variable Quota Share Reinsurance: See Surplus Reinsurance, Surplus Share Reinsurance.

Working Cover: A contract covering an amount of excess reinsurance in which frequency of loss is anticipated, usually attaching over a relatively low retention and usually providing a relative low limit of reinsurance coverage per loss or risk.

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**FUNDAMENTALS OF REINSURANCE
FOR DIRECTORS**



Gary Myers, CPCU, Are

Lost Woods Re, LLC
Centralia, Missouri
lostwoodsre@yahoo.com



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WHAT IS REINSURANCE?



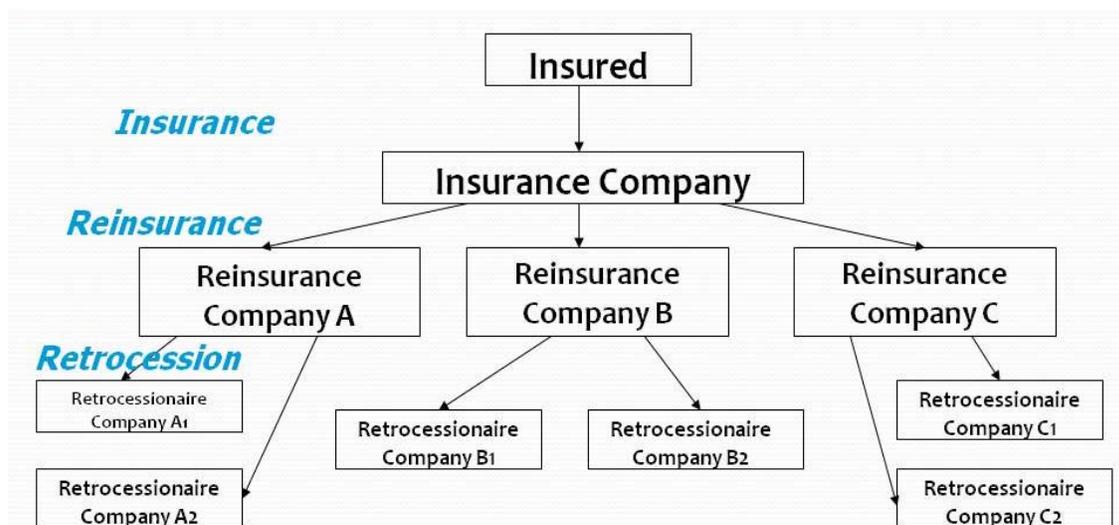
- Primary company issues policy
- Reinsurer assumes risk from primary company
- Insurance of insurance
- Reinsurance is a contract where the reinsurer, for a premium, indemnifies a primary company for losses paid under its policies

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RISK SHARING VIA REINSURANCE

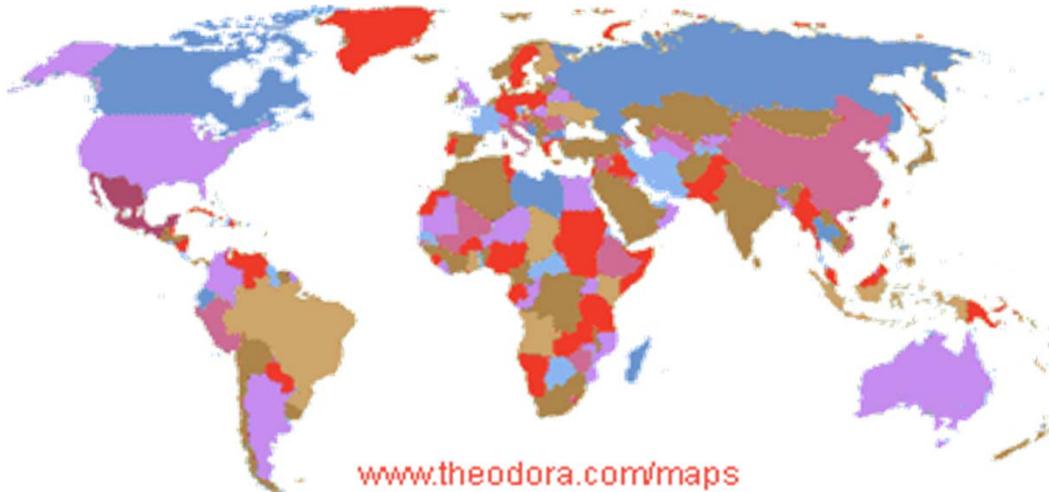


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REINSURANCE – A GLOBAL BUSINESS



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FUNCTIONS OF REINSURANCE

- Capacity
- Stability
- Catastrophe Protection
- Surplus Relief
- Services
- Withdrawal from a Territory or Line of Business



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CAPACITY

- Large line capacity—Ability to write large risks
 - ✓ Empire State Building
 - ✓ Regulations
- Premium capacity
 - ✓ Surplus supports Premium writings
 - ✓ Leverage ratio NPW/Surplus 3:1
 - ✓ Regulators, Rating Agencies (AM Best's)



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STABILITY

- Reinsurance smoothens loss results, takes out peaks
- Makes risks more homogenous



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CATASTROPHE PROTECTION

- Aggregation of losses from a single event

- ✓ Wind
- ✓ Hail
- ✓ Hurricane
- ✓ Earthquake
- ✓ Brush Fire
- ✓ Winter Storm



- Limit adverse financial effects to a primary company arising from an event

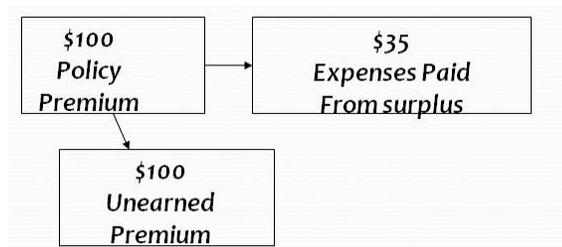
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SURPLUS RELIEF

- Premium and Unearned premium growth
- Leverage
- Affects capacity



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SERVICES

- Underwriting reviews and advice
- Claims reviews and advice
- New product development (e.g. cyber liability)
- Actuarial Reviews
- Investment and financial advice
- Accounting advice



WITHDRAWAL FROM A TERRITORY OR LINE OF BUSINESS

- Portfolio reinsurance
- 100% Quota share reinsurance
- Assume risk until policies runoff/expire

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TYPES OF REINSURANCE

Facultative



Prorata

Excess of Loss

Treaty



Prorata

Excess of Loss

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FACULTATIVE

- Present individual risks to Reinsurance

Underwriter

- Select and price risks individually
- Customized terms and conditions
- Sometimes “automatic” with predetermined pricing and qualifications or classes (e.g. retail stores, churches etc.)



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WHEN TO USE FACULTATIVE

- Build capacity
- Excluded from automatic treaties
- Protect treaties from unique or high hazard risks
- Access Underwriting expertise



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TREATY

- Automatically reinsures portfolios or blocks of business
- Treaty Contracts outline
 - ✓ Predetermined price
 - ✓ Acceptable risk qualifications
 - ✓ Terms and conditions of coverage



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PRORATA REINSURANCE

Quota Share	Limit	Premium	Loss
	\$100,000	\$100	\$50
60% Retention	\$60,000	\$60	\$30
40% Cession	\$40,000	\$40	\$20

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PRORATA REINSURANCE

- Surplus Share
 - ✓ Dollar threshold determines percentage split
 - ✓ $\$40,000/\$200,000 = 20\%$ retention/80% cession
 - ✓ Line Guide can set the retention by class
 - ✓ After retention and cession determined, same prorata sharing of premium, losses
 - ✓ Ceding commissions offset primary company expenses and determine reinsurance “price”

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EXCESS OF LOSS – PROPERTY CAT

- Property Catastrophe Per Occurrence
- Usually limited to 2 occurrences per term, reinstated at a price when first loss occurs
- Purchased in Layers
- Often involves multiple reinsurers on one Layer/Contract
- Hours clauses

70 xs 30	\$100 million
20 xs 10	\$30 million
Retention	\$10 million

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EXCESS OF LOSS – INDIVIDUAL RISK

- Property Per Risk
- Define Risk (e.g. Farmowners)

600 xs 400	\$1,000,000
Retention	\$400,000



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EXCESS OF LOSS – AGGREGATE PROTECTION

- Aggregate excess—coverage for an accumulation of loss over a period of time
- Various forms based upon loss ratio, aggregation of excess losses
- Stop Loss ratio excess of a 75% net annual loss ratio
- Aggregation of Catastrophe losses greater than \$2 million dollars but less than \$15 million that accumulate greater than \$75 million in one year
- Challenging to place at an acceptable cost

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SETTING REINSURANCE LIMITS & RETENTIONS

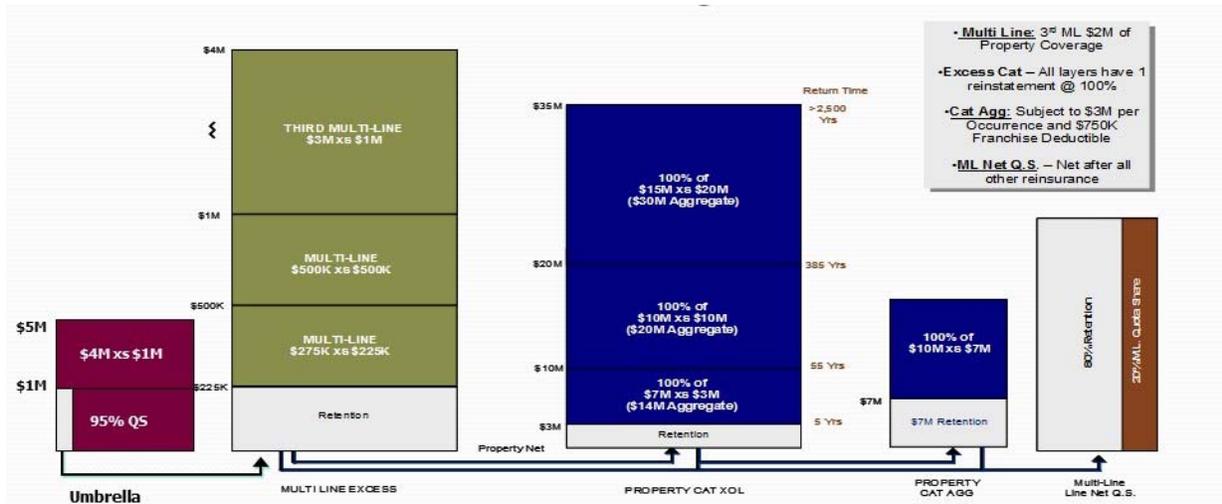
- Lines of business written
- Size of Company
- Financial strength
- Loss Experience
- Policy limits profile
- Modeling results

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HYPOTHETICAL REINSURANCE PROGRAM



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TYPES OF REINSURERS

- Professional Reinsurers (e.g. American Ag, Swiss Re, Munich Re, Hannover Re, SCOR, Berkshire Hathaway, General Re)
- Primary Company reinsurance department/company (e.g. Employers Mutual Casualty, Shelter Reinsurance Company)
- Lloyds of London (104 syndicates in 2017)
- Bermuda/International (e.g. XL, AXIS, Arch, Renaissance Re, Partner)
- Pools
 - ✓ Intercompany
 - ✓ Voluntary (Nuclear, Aviation)
 - ✓ Involuntary (Fair Plans, Coastal Pools)

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LARGEST REINSURERS

Reinsurer	Assumed Premiums
Munich Re	\$41 b
Swiss Re	\$29 b
Hannover Re	\$19 b
SCOR	\$15 b
Berkshire Hathaway	\$15 b
Lloyds of London (combined)	\$14 b

Life and Non-Life premiums combined

(July 2015, SNL Financial, taken from public records)



FARM MUTUAL REINSURANCE CARRIERS

- Grinnell Mutual, West Des Moines, Iowa
- Farmers Mutual Hail, West Des Moines, Iowa
- Wisconsin Reinsurance Group, Madison, Wisconsin
- Guy Carpenter Regional Accounts Program (June 2013)
- Farm Mutual Reinsurance Plan, Cambridge, Ontario

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REINSURANCE MARKETING



- Broker/Intermediary Market
 - ✓ Broker produces business for reinsurer(s)
 - ✓ Compensated by reinsurer
 - ✓ Subject to NY Regulation 98—reinsurer retains credit risk
 - ✓ Often a subscription reinsurance program
 - ✓ Some larger brokers include Aon/Benfield, Guy Carpenter, Willis/Towers Watson, Holborn, BMS

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REINSURANCE MARKETING

- Direct Writers
 - ✓ Salaried employees produce business
 - ✓ May assume all of a reinsurance program
 - ✓ Provide services and negotiate directly with ceding companies
 - ✓ Far fewer in number and less Direct market share;
most now assume business both directly and through intermediaries
(Munich, Swiss, General Re, Transatlantic)

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CHOOSING A QUALITY REINSURER OR BROKER

- Financial strength
- Ratings—Best's, S&P, Moody's
- Service capability
- Culture/fit with primary company
- Depth and strength of representatives/brokers
- Product knowledge, experience, access to data
- Accessibility
- Industry reputation
- Claims paying ability
- Price

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ATTRACTING A REINSURER TO A PROGRAM

- Quality management
- Well crafted business plan
- Verification of execution of the business plan through underwriting/claims reviews
- Strength of capital base
- Consistently good financial operating results



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STATE OF THE REINSURANCE MARKETPLACE

- Consolidation in recent years—rapid, extensive, continuing
 - ✓ Aon/Benfield; Willis/TowersWatson
 - ✓ Swiss Re/Employers Re; Munich Re/American Re
 - ✓ Partner/AXIS; XL/Catlin; Ren Re/Platinum; Montpelier/Endur
 - ✓ Somp/Endurance; Argo/Ariel; Liberty/Ironshore; Fairfax/Alliea
 - ✓ Canada Pension Plan/Ascot
 - ✓ AXA announces purchase of XL March 2018
- Growth of Bermuda market (1992, 2001, 2005); tax law effect
- Lloyds Marketplace—27.7 billion euros 2016 official capacity (6% increase from 2015 to 2016)



STATE OF THE REINSURANCE MARKETPLACE

- Driving factors for 2018
 - ✓ \$595 billion of reinsurance capacity, up from \$340 billion in 2008, increase of 5.3% 2016-2017
 - ✓ Traditional +4.7%; Alternative capital +9.6%
 - ✓ Alternative capital saw smallest growth in 5 years
 - ✓ Average catastrophe year in 2016 after 3 light years; Heavy Cat losses in 2017
 - ✓ Insurer capital strength around \$3.5 trillion globally
 - ✓ Cat modeling and BCAR revisions continue, push demand
 - ✓ Growth of Casualty lines predictability lowers demand
 - ✓ Amount of Catastrophe bonds leveled off at \$20b in 2016; alternative capital growth more in collateralized area



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ALTERNATIVE CAPITAL IN REINSURANCE

- Cat Bonds, Sidecars, ILWs, Collateralized contracts, Hedge Funds
- 12% of reinsurance marketplace in 2014; stabilized in 2016
- Bond loss—2011 Japanese earthquake, \$300m cat bond payment to Zenkoren
- Bond loss—2011 Tornados, \$200m cat bond payment to American Family
- 2017 collateralized reinsurance losses
- Largest Cat Bond—Florida Citizens Insurance
- Investors prefer parametric loss triggers (e.g. Cat 5 hurricane)
- Investor Desirability—non-correlation with financial markets
- Spreads with Treasuries (increasing interest rates will affect desirability and capital supply)

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ALTERNATIVE CAPITAL IN REINSURANCE

Some potential downsides of using capital markets

- ✓ Will investors (non-reinsurance professionals) remain after significant loss payments?
- ✓ No reinstatements after Cat loss, once and done
- ✓ Rely on accuracy of models for risk assessment, pricing
- ✓ Primary company loses a source of broad-based insurance expertise and knowledge for underwriting assistance

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STATE OF THE REINSURANCE MARKETPLACE

- 2018 renewals
 - ✓ Property and Casualty reinsurance increased 5-10% due to 2017 Cat activity impact on reinsurers, largely from Hurricanes and Wildfires
 - ✓ June renewals for Florida programs will be a good future indicator
 - ✓ Good supply; some increase in demand from Best's BCAR & modeling
 - ✓ Aggregate reinsurance coverage available
 - ✓ Tax law decreases Bermuda tax advantage; also new tax limitation on intercompany reinsurance (BEAT—Base Erosion & Anti-Abuse Tax)



CATASTROPHE MODELING (CONTINUOUS EVOLUTION)

- Mechanics
 - ✓ Geographic distribution of TIV
 - ✓ Construction type
 - ✓ Insurance features—deductible, policy form
 - ✓ Stochastic event sets
 - ✓ Statistical probability of event occurrence
- General industry standard to manage to 1% probability for wind events and 0.4% probability for EQ
- Regulators, rating agencies, Cat Bond marketers
- Quality and accuracy of data, geocoding



EP OVERVIEW – EXPOSURE AS OF JUNE 30, 200X WITH CURRENT MODEL GROSS LOSSES, IN THOUSANDS

All Perils (excluding Winterstorm)

Probability of Non-Exceed	Avg Return Time (Years)	AIR CLASIC/2 v11.0	RMS RiskLink v9.0
99.90%	1000	32,461	19,111
99.80%	500	26,959	16,056
99.60%	250	20,563	13,107
99.00%	100	14,701	9,384
98.00%	50	10,556	7,093
96.00%	25	7,790	5,286
Insurance in Force Premium		9,145,869	9,145,869
Risks (ones)		35,073	35,073
Annual Avg.		78,825	78,825
PML:Premium - 100 yr		4,494	5,229
PML:Premium - 250 yr		0.4:1	0.3:1
Loss Ratio (%)		0.6:1	0.4:1
Loss Cost (%)		12.8%	14.9%
		0.049%	0.057%

Earthquake and Fire Following

Probability of Non-Exceed	Avg Return Time (Years)	AIR CLASIC/2 v11.0	RMS RiskLink v9.0
99.90%	1000	19,121	4,665
99.80%	500	1,740	967
99.60%	250	241	10
99.00%	100	27	0
98.00%	50	2	-
96.00%	25	-	-
Insurance in Force Premium		310,638	310,638
Risks (ones)		-	-
Annual Avg.		34,596	34,596
PML:Premium - 100 yr		74	15
PML:Premium - 250 yr		NA	NA
Loss Ratio (%)		NA	NA
Loss Cost (%)		0.024%	0.005%

Other Wind

Probability of Non-Exceed	Avg Return Time (Years)	AIR CLASIC/2 v11.0	RMS RiskLink v9.0
99.90%	1000	27,024	18,493
99.80%	500	23,227	15,618
99.60%	250	18,982	12,796
99.00%	100	14,330	9,202
98.00%	50	10,307	6,995
96.00%	25	7,677	5,235
Insurance in Force Premium		9,145,869	9,145,869
Risks (ones)		35,073	35,073
Annual Avg.		78,825	78,825
PML:Premium - 100 yr		4,420	5,214
PML:Premium - 250 yr		0.4:1	0.3:1
Loss Ratio (%)		0.5:1	0.4:1
Loss Cost (%)		12.6%	14.9%
		0.048%	0.057%

Winterstorm

Probability of Non-Exceed	Avg Return Time (Years)	AIR CLASIC/2 v11.0	RMS RiskLink v9.0
99.90%	1000	4,313	22,542
99.80%	500	3,647	15,544
99.60%	250	3,011	10,548
99.00%	100	2,134	5,892
98.00%	50	1,423	3,658
96.00%	25	951	2,142
Insurance in Force Premium		9,145,869	9,145,869
Risks (ones)		35,073	35,073
Annual Avg.		78,825	78,825
PML:Premium - 100 yr		238	497
PML:Premium - 250 yr		0.1:1	0.2:1
Loss Ratio (%)		0.1:1	0.3:1
Loss Cost (%)		0.7%	1.4%
		0.003%	0.005%

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FINITE REINSURANCE AND RISK TRANSFER

- History of past abuses—Diminished risk through excessive commissions, funds held, multiple year covers with one limit, quota share w/deductible
- Established rules and regulations—SSAP 62, Statutory Statement disclosures
- Statutory statement interrogatories
- “Risk transfer reasonably considered to be self evident based upon loss activity, loss ratios”

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TAKEAWAYS

1. How financially & operationally solid are our reinsurers?
2. Do our reinsurance contracts afford proper risk transfer?
3. Are we financially transferring/retaining the right amount of risk?
4. Do we purchase the right amount of coverage and limits to fit our risk profile?
5. Does the performance of our business force us to purchase more reinsurance than we can afford?

RECOMMENDED RESOURCES

Fundamentals of Reinsurance for Directors

Publications

Reinsurance Market Outlook, September 2017, Aon

<http://thoughtleadership.aonbenfield.com/Documents/20170910-ab-analytics-rmo-september.pdf>

Reinsurance, 1997, Second Printing, 2005

Robert W. Strain

Reinsurance 4th Edition

Professor R. L. Carter

Textbooks from the Associate in Reinsurance designation, American Institute for CPCU (AICPCU), Malvern, Pennsylvania.

Dr. Robert P. Hartwig, CPCU; James Lynch, FCAS, MAAA; *Alternative Capital and its Impact on Insurance and Reinsurance Markets*: Insurance Information Institute.org; March 24, 2015

Websites and Organizations Offering Educational/Informational Opportunities

American Institute for CPCU

www.aicpcu.org

CPCU Society

www.cpcusociety.org

Insurance Journal

<https://www.insurancejournal.com/topics/reinsurance-outlook-2018>

Reinsurance Association of America

<http://www.reinsurance.org>