Reinsurance

At the end of this unit, candidates should be able to demonstrate an understanding of:

- Different types of reinsurance – facultative, proportional and non-proportional treaties;
- The global marketplace for reinsurance and main market practices;
- The main aspects of property, casualty, marine and aviation reinsurance.

Assumed knowledge

It is assumed that the candidate already has knowledge of the fundamental principles of insurance as covered in IF1, Insurance, legal and regulatory, and P05 Insurance Law, or equivalent exams.

Summary of learning outcomes

1. Know the purpose of and parties to reinsurance.
2. Understand fundamental issues of reinsurance.
3. Understand the features and operation of facultative reinsurance.
4. Understand the features and operation of proportional reinsurance treaties.
5. Understand the features and operation of non-proportional reinsurance treaties.
6. Understand the design of reinsurance programmes, main market practices and legal issues.
7. Understand main aspects of the global reinsurance market.
8. Understand the accounting methods for different types of reinsurance.
9. Understand the main aspects of property, casualty, marine and aviation reinsurance.

Notes

- The syllabus is examined on English law and practice.
- The April session will test the legal position as of 31 August of the preceding year.
- The October session will test the legal position as of 28 February of the same year.
1. Know the purpose of and parties to reinsurance
   1.1 The purpose of reinsurance – spreading risk, capacity, financial security, capital management;
   1.2 Different purchasers and providers of reinsurance;
   1.3 The contractual relationship between the parties;
   1.4 The role of the retrocedant and retrocessionnaire;
   1.5 The role of the broker/intermediary in the reinsurance process.

2. Understand fundamental issues of reinsurance
   2.1 Main reinsurance methods in outline – their uses, advantages and disadvantages;
   2.2 Definitions of premium income used and how these are adjusted;
   2.3 Common clauses and their operation – cancellation, arbitration;
   2.4 Retrocession – how the various methods of reinsurance apply to retrocession;
   2.5 Alternative Risk Transfer products in outline – advantages and disadvantages in comparison to conventional reinsurance.

3. Understand the features and operation of facultative reinsurance
   3.1 The main features and operation of different methods of facultative reinsurance;
   3.2 The different premium and claim calculations for proportional and excess of loss reinsurance.

4. Understand the features and operation of proportional reinsurance treaties
   4.1 The main features and operation of the following proportional treaties:
       • Quota share
       • Surplus
       • Facultative obligatory;
   4.2 Alternative bases of cover, including underwriting year and portfolio transfer (clean cut);
   4.3 Ceding commissions – flat rate and sliding;
   4.4 Profit commissions – no loss carry forward, loss carry forward, average basis;
   4.5 The use of premium and claims reserves;
   4.6 The use of cession and event limits in proportional treaties;
   4.7 The use of loss participation clauses in proportional treaties.

5. Understand the features and operation of non-proportional reinsurance treaties
   5.1 The main features and operation of the following non-proportional treaties, including calculation of premium and claims:
       • Excess of loss
       • Stop loss
       • Aggregate excess of loss;
   5.2 The bases of cover – risks attaching, losses occurring, claims made/losses discovered;
   5.3 The use of risk excess, including working covers and application to any one risk;
   5.4 The use of catastrophe excess of loss, including application to any one event;
   5.5 The difference between risk excess and catastrophe excess;
   5.6 Event limits and their use in non-proportional treaties;
   5.7 Reinstatements and their use in non-proportional treaties.

6. Understand the design of reinsurance programmes, main market practices and legal issues
   6.1 Design, selection and placing of reinsurance
       6.1.1 The process of designing reinsurance programmes for various classes, including programmes of more than one class.
       6.1.2 Combination of proportional and non-proportional treaties including gross line surplus retention protected by risk excess of loss;
       6.1.3 Selection considerations – portfolio statistics, cover comparison, loss allocation;
       6.1.4 Material information in the placing process and the importance of reciprocity;
       6.1.5 The potential impact of electronic placing on reinsurance markets.
   6.2 Legal issues
       6.2.1 The formation of a reinsurance contract;
       6.2.2 Interpreting contractual documents – key issues and reinsurance case law;
       6.2.3 Importance of choice of law, jurisdiction and forum.
   6.3 Contract wordings
       6.3.1 The main features of facultative and treaty wordings;
       6.3.2 Key clauses used in proportional and non-proportional wordings;
       6.3.3 The importance of treaty exclusions – both general and market specific.
7. Understand main aspects of the global reinsurance market

7.1 Main features of the principal global markets – London, other European markets, North America, Bermuda, Asia, Middle East and other major accepting markets;

7.2 Market characteristics – captives, retrocession markets, capital market solutions, terrorism markets;

7.3 Characteristics of hard and soft markets – the market cycle;

7.4 Security of reinsurance – the role of rating agencies.

8. Understand the accounting methods for different types of reinsurance

8.1 Facultative and proportional reinsurance
8.1.1 Accounting methods, including calculation of commissions, profit commission, release of reserves;

8.1.2 Common methods of calculating earned and unearned premiums.

8.2 Non-proportional reinsurance
8.2.1 Accounting methods, including deposit or minimum and deposit premiums, adjustment premiums, reinstatement premiums;

8.2.2 Financial considerations – reserve deposits, payment of interest and alternatives to cash deposits;

8.3 General
8.3.1 Operation of discounts and deductions, including taxes and brokerage.

9. Understand main aspects of property, casualty, marine and aviation reinsurances

9.1 Property
9.1.1 Main underwriting characteristics, including principles of rating;

9.1.2 Different reinsurance methods applied to property reinsurance;

9.1.3 Main terms and conditions specific to property reinsurance – hours clause, estimated maximum loss, accumulation, loss event definition, cession, event limitation.

9.2 Casualty
9.2.1 Main underwriting characteristics, including principles of rating, long tail features, IBNR, claims inflation, occupational disease risks, product liability, professional indemnity, North American exposures;

9.2.2 Different reinsurance methods applied to casualty reinsurance;

9.2.3 Main terms and conditions specific to casualty reinsurance – key clauses in motor, liability, professional indemnity, worker’s compensation, trade credit and political risks, surety, definition of loss event in casualty excess of loss cover.

9.3 Marine
9.3.1 Main underwriting characteristics, including principles of rating and treatment of war risks;

9.3.2 Different reinsurance methods applied to marine reinsurance;

9.3.3 Main terms and conditions specific to marine reinsurance – MAREXEL form and clauses additional to it, accumulation on interests; war and strikes cover, terms and conditions specific to hull, cargo and energy.

9.4 Aviation
9.4.1 Main underwriting characteristics, including principles of rating;

9.4.2 Different reinsurance methods applied to aviation reinsurance;

9.4.3 Main terms and conditions specific to aviation reinsurance – war, hi-jacking and terrorist risks, aviation liabilities.

Reading list
The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown in bold type. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination. CII/Personal Finance Society members can borrow most of these additional study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge.


Reference materials

Periodicals
The Review. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at www.cii.co.uk/knowledge/journals.

Examination guides
Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners’ comments on candidates’ performance and key points for inclusion in answers. You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8466. Older examination guides are available (for members only) at www.cii.co.uk/knowledge/examguides.

Exam technique/study skills
There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/Personal Finance Society members only).
For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.