

REINSURANCE

785

OBJECTIVE: To provide a knowledge and understanding of the principles of reinsurance, their general application to the different methods of reinsurance, the law relating to reinsurance, and the contract wordings in current use.

	<i>Knowledge rating</i>		
METHODS OF REINSURANCE —MAIN FORMS		Scope and limitation of the reinsurer's liability.	2
Nature, advantages and disadvantages of proportional and non-proportional facultative reinsurance.	3	Position of reinsurance brokers.	2
Main forms, advantages and disadvantages of proportional and non-proportional treaty reinsurance.	3	WORDINGS	
Key principles of alternative risk transfer business.	1	Constituent parts of property and casualty proportional and non-proportional treaty wordings.	3
OPERATION OF THE VARIOUS TYPES OF REINSURANCE		Common clauses within property and casualty proportional and non-proportional wordings, including the ultimate net loss clause, the claims reporting clause, the hours clause, the aggregate extension clause, the currency fluctuation clause, the stability clause, errors and omissions clauses, termination of the contract and sudden death clauses and inspection clauses.	3
Application of facultative excess of loss reinsurance, including the calculation of the premium.	3	Treaty exclusions.	2
Operation of stop loss reinsurance.	3	PLACING OF REINSURANCES	
Use of treaty excess of loss.	3	Use of the slip (paper/electronic) in placing facultative and treaty reinsurance.	3
Uses of quota share and surplus reinsurance treaties.	3	Structure of the slip (paper/electronic) for property proportional and non-proportional reinsurance.	3
Risk excesses, including working covers.	3	Structure of the slip (paper/electronic) for casualty proportional and non-proportional reinsurance.	3
Need for catastrophe excess cover and the factors considered in rating such covers.	3	Structure of the slip (paper/electronic) for marine and aviation proportional and non-proportional reinsurance.	3
Use of facultative obligatory reinsurance.	2	Material information and statistics required for placing reinsurance.	3
Bases of coverage, including risks attaching, losses occurring and claims made.	3	Negotiating a reinsurance contract, including the information required, and presentation of information (for example claims information and 'as if' statistics); price and reciprocity.	3
Use of event limits in proportional treaties.	3	Cover notes and closing instructions.	3
Use of event limits in non-proportional treaties.	3	REINSURANCE MARKETS	
Definitions of premium income as used in reinsurance.	2	Nature of the reinsurance markets.	1
Discounts and deductions from premium, including premium taxes, brokerage and the various forms of commission (including sliding scales and profit commission).	2	Buyers of reinsurance.	2
Calculating the premium for non-proportional treaties.	2	Sellers of reinsurance.	2
Reinstatements on non-proportional treaties.	2	Role of the principal UK reinsurance market associations.	2
Use of retrocessions.	2	Evolving structure of Lloyd's, including corporate capital, reinsurance to close, Equitas, the role of Centre Write.	3
LAW RELATING TO REINSURANCE		Composition and operation of the North American reinsurance market including regulation in the USA.	3
Fundamental legal principles underlying reinsurance.	3	Development and composition and operation of the other European markets, including sources and types of business.	3
Formation and form of contract.	2	Composition and operation of Bermuda and other major accepting markets.	3
Incorporating the terms of the original policy.	2	Specialist reinsurance companies, development of State reinsurance corporations and reinsurance pools.	2
Legal definition of reinsurance.	2	Captive insurance markets, capital availability and tax effectiveness.	2
Subject-matter of reinsurance.	2	Common forms of reinsurance pools, including market pools, government reinsurance and underwriting pools.	2
Insurable interest, indemnity and utmost good faith in relation to reinsurance.	2	Retrocessional markets.	2
Distinction between 'full reinsurance', 'follow the settlements' and 'follow the fortunes' clauses; their use, intention and effect.	3		
Reinsurance disputes and their resolution including arbitration and Alternative Dispute Resolution.	2		
Insolvency of the reinsured and winding up, rights of the reinsured, use of cut through clauses.	2		
Time bar, waiver and affirmation of reinsurance contracts.	2		
Jurisdiction, applicable law and reinsurance contracts and the legality of the reinsurance contract.	2		

ASSOCIATESHIP TECHNICAL

SPECIFIC ISSUES—PROPERTY

Forms of property reinsurance, including the use of proportional and non-proportional treaties and facultative reinsurance.	3
Property underwriting, estimated maximum loss (EML) and accumulation.	3
Underwriting characteristics of property excess of loss.	3
Advantages and disadvantages of property excess of loss.	3
Use of facultative excess of loss.	3
Use of risk excess of loss.	3
Catastrophe excess of loss, including use of hours clauses and calculating the cost of reinstatement.	3

SPECIFIC ISSUES - CASUALTY

Forms of reinsurance including proportional and non-proportional treaties and facultative reinsurances used in casualty business including third party liability, employers' liability, motor, personal accident, credit, bonding and miscellaneous risks.	3
Advantages and disadvantages of combining several classes of casualty business in one treaty.	3
Definition of the loss event in casualty excess of loss reinsurance.	3
Inflation in relation to casualty reinsurance.	3
Specific problems in underwriting long tail excess of loss treaties, including North American exposures, products liability, pollution exposures, occupational disease risks and latency problems.	3
Key clauses within motor, liability and Workmen's Compensation Act treaties.	3

SPECIFIC ISSUES—MARINE

Forms of marine reinsurance including the use of proportional and non-proportional treaties.	3
Use of quota share, surplus, working excess of loss, catastrophe excess of loss, reporting excess of loss, aggregate excess of loss, stop loss and back-up contracts.	3
Other forms of marine reinsurance, including limited conditions reinsurance.	2
Reinsurance of war risks.	2
Reinsurance of marine liabilities.	2
Treaty exclusions.	2

SPECIFIC ISSUES —AVIATION

Forms of aviation reinsurance, including the use of proportional and non-proportional treaties and facultative reinsurance.	3
Reinsurance of aviation liabilities.	2
Treaty exclusions.	2

INFORMATION TECHNOLOGY

Application of information technology in relation to general reinsurance, particularly underwriting, data and accounts processing.	3
Use of electronic trading, office systems, expert systems and networks.	2
Limitations and constraints in the use of information technology.	2
Importance of audit and security requirements.	2

Knowledge ratings

Each sub-topic has been designated a numerical rating as follows:

- 1 General background awareness necessary.
- 2 Requires a knowledge of the major elements of procedures or concepts and their uses.
- 3 Requires the ability to evaluate concepts, issues, policies and procedures, together with an understanding of associated aspects of these items and their application to various situations.

Study materials

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. The reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Primary text

Coursebook 785: Reinsurance. The Chartered Insurance Institute.

Additional reading

- Reinsurance*. R. L. Carter. 3rd edition. London: ReActions in association with the Mercantile & General Reinsurance Company, 1995.
- The law and practice of reinsurance*. C. E. Golding.
- The nuts and bolts of reinsurance*. Keith Riley. London: LLP, 1997.
- Marine reinsurance*. Robert H. Brown, Peter B. Reed.

Reference materials

- Reinsurance principles and practice*. Klaus Gerathewohl and others. Karlsruhe: Verlag Versicherungswirtschaft, 1980–82.
- Reinsurance clauses*. LIRMA. 2nd edition. London: London Insurance and Reinsurance Market Association, 1992.
- Reinsurance Law*. John S. Butler and Robert M. Merkin. London: Kluwer, 1986.

Periodicals

- Insurance Day*. London: LLP.
- Post Magazine*. London: Timothy Benn Publishing. Weekly.
- ReActions*. London: ReActions Publishing Group. Monthly.
- Reinsurance*. London: Timothy Benn Publishing. Monthly.
- The Review*. EMAP Media. Monthly.
- Catastrophe Reinsurance Newsletter*. London: LLP. Monthly.
- Kluwer Insurance and Reinsurance Law Briefing*. Kingston upon Thames: Croner. Monthly.