Non-proportional Reinsurance

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Agenda

- Description
- Why
- Structure and pricing
- Effects for ceding company
- Reinsurer risk
- Miscellaneous

Non-proportional Reinsurance - *description*

- Non-proportional reinsurance transfers losses beyond a certain threshold (retention) from cedants to reinsurers, be it for single losses (per risk excess of loss), events (catastrophe excess of loss), entire portfolios over a given time period (aggregate excess of loss, stop loss) or a combination thereof.
- Prices for non-proportional reinsurance are agreed upon between cedants and reinsurers. This can be done through direct negotiations or through (reinsurance) brokers. It is usual that comprehensive information – on current exposures as well as on loss history – will be made available to reinsurers in order to allow an assessment of the risk profile of the exposures reinsured.

Non-proportional Reinsurance - *why*

Reinsurance can be a powerful risk management tool for insurance undertakings (cedants). It allows an insurer to transfer significant parts of risk to third parties (reinsurers) for a set premium. The main purpose for many cedants is to get a capital relief, while reinsurers effectively manage capital through worldwide diversification. This is especially true for non-proportional reinsurance, as it allows the cedant to substitute substantial (expensive) amounts of its capital with lower (cheaper) capital of reinsurers as they are able to turn worldwide diversification effects into capital credit. In this sense reinsurers do nothing other than apply the "principle of insurance" for insurance undertakings in the same way as insurance undertakings provide the "principle of insurance" for their clients.

Non-proportional Reinsurance

Type:	Excess of Loss Reinsurance Aggregate Excess of Loss Stop Loss
Pricing:	Experience Based methods Exposure Based methods

Effects of Non-proportional Reinsurance for the ceding company

- Volatility reduction of results
- Diversification Improvement
- Improvement of risk and return
- Capacity increase
- Qualitative Effects

Reinsurer Risk

- reinsuring business brings with it a risk of reinsurer default
- reinsurance risk books tend to be more diversified than those of insurers
- little or no correlation between large natural catastrophe risks, eg windstorm and earthquake
- even for a reinsurer market risk is significant
- reinsurers have credit ratings and are normally regulated in the same way as direct insurers

Non-proportional Reinsurance – *other points*

- Solvency Ratio Improvement
- Rating impact
- Powerful Risk Management Tool
- Risk of Reinsurer Default
- Complimentary Risk Mitigation Instruments, for example:
    - Industry Loss Warranties
    - Catastrophe Bonds
    - Catastrophe Swaps
    - Other forms of securitisation

Thank you

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