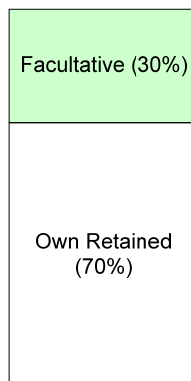


FACULTATIVE

- Facultative means optional, the power to act according to a free choice
- Uses:
 - Beyond automatic treaty capacity
 - Where no treaty protection is available
 - Where the insurer does not wish to cede to its treaty
 - Hazardous or market target risks
 - Unique commercial, financial or strategic reason
- Facultative reinsurance:
 - Can be on a proportional or non-proportional basis
 - The proportional form is the original form
 - Facultative means optional i.e. the power to act according to a free choice
 - Thus, facultative reinsurance underwriter is free to accept or decline each offer and the insurer (cedant) is not compelled to cede
 - Facultative reinsurance is effected to cover individual acceptances
- Effect of proportional facultative reinsurance:

	80%	20%
RISK	Retained by cedant	Ceded to Fac. Reinsurers
	80%	20%
PREMIUM	Retained by cedant	Paid to Fac. Reinsurers
	80%	20%
LOSS	Paid by cedant	Paid by Fac. Reinsurers

- Example of Placement Facultative Proportional:



TREATY

- Treaty is an agreement in writing between the direct insurer (the ceding office) and a reinsurer or number of reinsurers whereby the reinsurer(s) will accept automatically without further negotiations any cessions falling within the terms of the agreement
- Treaty or agreement will be for a given time period
- Treaty is subject to restrictions as to the type of risk or value involved
- The automatic nature of the treaty is in the fact that the facility has been arranged in advance and negotiations are normally only necessary at renewal

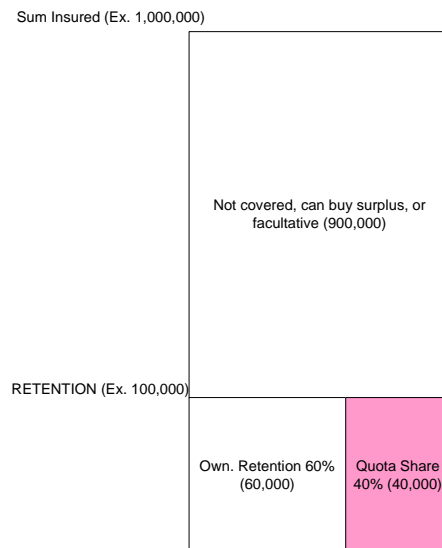
QUOTA SHARE:

- Simplest of all forms of treaty reinsurance
- The reinsurer agrees to reinsure a fixed proportion of every risk accepted by the ceding company, sharing proportionately in all losses and receiving in return the same proportion of all direct premium

Uses of Quota Share:

- For new companies and companies entering into a new class of business or new area of operation
- Where ceding company wishes to arrange reciprocal exchange of business
- For classes of business where it is difficult to define a single risk e.g. Crop hail insurance
- For reducing a ceding company's exposure under policies covering natural perils
- For classes of insurance where, although there may be policy limits, the incidence and size of losses are uncertain e.g. liability insurances

Example of Placement Quota Share:

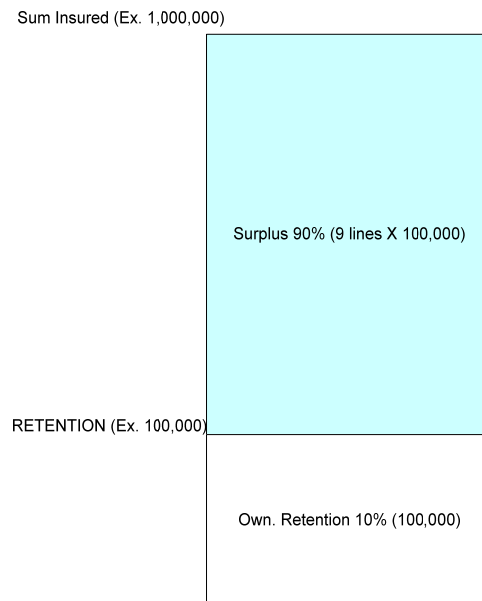


SURPLUS

- It is the most common form of treaty reinsurance
- It is a proportional treaty
- The insured only reinsures that portion of any risk which exceeds its own retention limit
- Normally, the ceding company will adopt varying retention limits directly related to the degree of risk associated with different types of exposure units
- Surplus treaty is expressed in "line" whereby one line is equivalent to the ceding company's retention
- *The number of "line" does not equate to the number of reinsurers*

Uses of Surplus Treaties: the main use is to attain automatic underwriting capacity to enable the insurer to transact business in its chosen market and complete its peer companies.

Example of Placement Surplus Treaty:



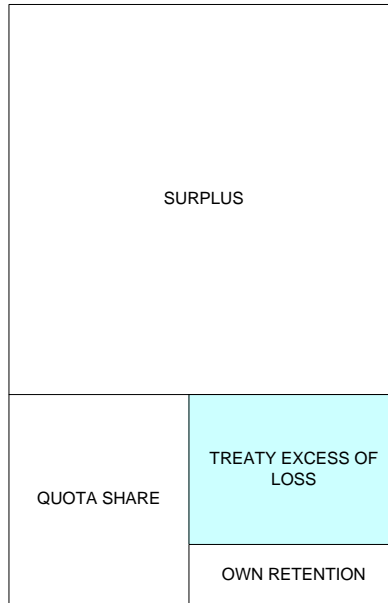
TREATY EXCESS OF LOSS

TERMINOLOGY

- Retention: the fixed monetary amount retained by the reinsured. It is often called deductible or excess point
- Limit: the fixed monetary amount of one layer given by excess of loss reinsurers. It is often called cover, coverage, limit of liability or indemnity
- Layer: the extent of excess of loss coverage given by reinsurers
- Programme: a series of consecutive layers giving the reinsured vertical coverage
- Recovery: the monetary amount recoverable from a particular layer
- Incurred loss amount: loss amount which can be set against an excess of loss layer or programme
- FGU: from the ground up – incurred loss from zero to its final amount
- Ultimate Net Loss: is defined under the excess of loss contract wording. This will vary dependent on class of business and type of excess of loss reinsurance
- Net retained loss: or net retained line is defined under excess of loss contract wording. Confirms to reinsurers that the incurred loss amount to be set against excess of loss layer or programme is the net amount after all prior reinsurance recoveries, normally proportional. As with ultimate net loss, it will vary depending on class of business and type of reinsurance

- Contract wording: signed agreement between the contracting parties (reinsured and reinsurer) detailing the layer, premium rate, terms, conditions, and exclusions of the excess of loss layer
- Pure burning cost: result of dividing total incurred losses to the layer by the total protected premium income (GNPI) for that account
- Incurred loss: total of paid and outstanding elements of a claim affecting a particular layer
- Loading factor: often expressed as 100/70, 100/75, 100/80, 100/85, 100/90. Such loading will vary depending upon circumstances, but should reflect reinsurer's administration, security, brokerage and profit requirements as identified by its management

PLACEMENT OF TREATY EXCESS OF LOSS



PLACEMENT OF STOP LOSS EXCESS OF LOSS

