

Reinsurance 101 - Understanding the Basics

Wednesday, October 16, 2013

Presented By the IADC Insurance and Reinsurance Committee

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Reinsurance Defined

- Reinsurance is “simply an insurance policy issued to an insurer.”
- **General Definition** – Reinsurance is the transfer from an insurer to a reinsurer of the risk assumed under all or a portion of a policy or a group of policies. The relationship between the original insurer, known as the ceding insurer or cedent, and the reinsurer is contractual. The reinsurer agrees to indemnify the ceding insurer in return for a portion of the premium on the risk transferred.

Contracts of Indemnity, Not Liability

- Typically, the reinsurer's sole obligation is to indemnify or reimburse the ceding company for a specified percentage of the claims and expenses attributable to the risks that have been reinsured. Thus, the reinsurer owes nothing to the ceding insurer unless and until the ceding insurer has paid a claim.

Basic Terms and Definitions

- **Ceding Insurer, Cedent or Reinsured** – The insurer that transfers, cedes, or “lays off” to a reinsurer all or a portion of the risk it underwrites.

Basic Terms and Definitions

- **Reinsurer** – The insurer that assumes a portion or all of the risk originally underwritten by another insurer.
- **Retrocessionaire** – The reinsurer of a reinsurer.

Basic Terms and Definitions

- **Assets**, including admitted reinsurance that an insurance regulatory body will consider in determining an insurer's financial status. State statutes usually define admitted assets to include assets that are relatively secure and readily available for claims payments. An insurer's admitted assets control and define the extent of its underwriting capacity.

Basic Terms and Definitions

- **Reinsurance** that qualifies as an asset under criteria enumerated by applicable state statutes and regulations and thus allows insurers to treat the reinsurance as an asset on its books.
- **Bordereaux** – periodic reports issued to treaty reinsurers detailing loss history by underlying insured and policy.

Basic Terms and Definitions

- **Captive** - A corporation organized for the purpose of insuring the liabilities of its owner. Captives are usually organized in venues – such as Bermuda or the Bahamas or, in the United States, the state of Vermont – that offer attractive tax and other financial advantages to insurance companies organizing within their borders.

Basic Terms and Definitions

- **Reserves** established by an insurer upon the filing of a claim and reported as liabilities in the financial records of the insurer. Case reserves are established by the ceding company, although a reinsurer can establish an additional reserve if it believes a case reserve is insufficient to cover a loss.

Basic Terms and Definitions

- **Incurring but Not Reported Reserves or IBNR**
 - Reserves set aside before claims are even filed. As courts have noted, IBNR reserves are extremely conjectural and may need adjustment as time passes.

Basic Terms and Definitions

- **Interests and Liabilities Agreement** – A separate rider to a reinsurance contract involving a number of reinsurers which is executed by each reinsurer and sets forth the percentage of the risk that each has agreed to assume.
- **Loss Reserves** – Reserves established for known claims and for incurred-but-not-reported claims and reported as liabilities in the financial records of the insurer.

Basic Terms and Definitions

- **Original Insured or Underlying Insured** – The policyholder that is insured by the cedent.
- **Reinsurance Intermediary** – A third party designated in a reinsurance contract through whom communications between the reinsured and the reinsurer are sent. Usually, the reinsurance intermediary is the broker that placed the risk and participated in the negotiation of the reinsurance contract.

Basic Terms and Definitions

- **Reinsurance Pool** – A group or association of reinsurers whose members each agree to accept a certain portion of all risks accepted on behalf of the group by a reinsurance pool manager.
- **Reinsurance Pool Manager** – A manager who, in accordance with a management agreement, typically, communicates on behalf of a reinsurance pool with the reinsurance intermediaries who bring together insurers and the reinsurers.

Attribution and Authority

- *Glossary of Insurance and Risk Management Terms (IRMI)*
- *Appleman, Insurance Law & Practice*
- *Modern Reinsurance Law and Practice* by Ostranger and Vyskocil

Basic Forms of Reinsurance

- Structure of Reinsurance
 - Treaty
 - Facultative Certificate
- Types of Reinsurance
 - Proportional
 - Quota Share
 - Non-Proportional
 - Excess of Loss
 - Aggregate Stop Loss
 - Clash/Catastrophe

Obligations of Reinsureds & Reinsurers

- Utmost Good Faith
- Reinsureds' Obligations
 - Full and Fair Underwriting Information
 - Timely Notice
 - Access to Records
- Reinsurers' Obligations
 - Timely Payment of Properly Presented Claims

Reinsurance Arbitration Process

- Arbitration vs. Litigation
- Commencing a Reinsurance Arbitration
- Arbitrator Selection
 - One Arbitrator or Three
 - Qualifications

Reinsurance Arbitration Process

- Organizational Meeting
 - Hold Harmless
 - Confidentiality Agreement/Order
- Prehearing Security
- Discovery

Reinsurance Arbitration Process

- Final Hearing
- Award
- Enforcement

Questions for Presenters?



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Thank you for Participating!

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