Module F Unit 10

REINSURANCE PROTECTION

Purpose

At the end of this unit the participant should be able to demonstrate an understanding as to why captives purchase reinsurance, the types of reinsurance available and how a captive might select a reinsurer.

Assumed knowledge

The treatment of reinsurance within the solvency model and therefore its importance to a captive. See Unit 6B and the solvency model in the appendices.

Summary of learning outcomes
1. Demonstrate general understanding of the reinsurance market.
2. Explain why captives purchase reinsurance.
3. Describe the different types of reinsurance available and reasons for their selection.
4. Explain the criteria for selecting a reinsurance company.
5. Describe the reinsurer's considerations regarding provision of protection to captives.
6. Describe the expectations of the GFSC with regard to a policy for reinsurance.

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REINSURANCE PROTECTION

10.0 BASICS OF THE REINSURANCE MARKET

10.0.1 Wholesale not retail

The reinsurance market is the insurance market's wholesaler. Its costs are significantly less but it follows that they are expecting the retailer, i.e. the primary insurance market, to be doing most of the client administration. Reinsurers do not want to be concerned with retail matters and do not want to deal with burning cost claims. The reinsurer is there for the unusual event and would not expect these type of claims to arise on an annual basis. Reinsurance is designed to cover the unexpected rather than the routine claims under a traditional insurance contract. Although some reinsurers may now deal directly with the largest corporate clients, they much prefer to deal with captives who will be assuming all of the functions normally undertaken by the traditional primary market.

10.0.2 World-wide

The reinsurance market tends to be more global than much of the primary market. There are some reinsurers who restrict their activities to one country or area but there are many who, whilst based in a particular territory, happily deal with insurers throughout the world; indeed, this helps them to achieve the geographical spread of risk they seek. Whilst the majority of countries have regulations dictating that insurances have to be placed with locally licensed insurers, few of these impose restriction on reinsurance which means that insurers, having once assumed the risk, are free to reinsure to entities outside their own territory.

10.0.3 Financial relationship

Reinsurers have far more of a financial relationship with their clients. For one thing, their expenses as a % of premium are much lower than those of a primary insurer so they aim to set aside a higher proportion of premium for claims, with the minimum absorbed by administration costs. Reinsurers have been described as the insurance market's bankers by spreading losses in excess of burning cost. Over time they will aim for their book of business from a source to be self-supporting. Whilst this cannot always be the case, nevertheless it is the results of a reinsurance arrangement that dictate its longevity and its terms. Reinsurers themselves, of course, will be protecting some or all of the upper catastrophe levels of their own acceptances by laying off catastrophic clash risk to other reinsurers, a process known as retrocession.

10.0.4 Confidence in ceding insurer

As the arrangement is more of a financial one and it is largely removed from the primary client and initial risk, a reinsurer has to have confidence in the source of his business. Are the primary insurers underwriting the risks properly and taking a significant part of the risk themselves so that any adverse trends will at least be shared by both parties? A reinsurer need to be comfortable that the ceding insurer has the technical ability to underwrite the risks and experience of the particular geography and business sector, e.g. a reinsurer might look askance at a significant property reinsurance coming from a traditional liability market. Where captives are concerned the reinsurers would be looking at the expertise of the manager, its track record and standing in the market.

10.0.5 Repayment expectation

Whilst obviously reinsurers recognise that they are accepting risk and losses can arise, in the main they will structure their acceptance such that they can anticipate repayment over time producing a similar smoothing mechanism as insurance provides for a major corporate.

10.0.6 Long-term nature

Although many primary insurance arrangements run for a number of years, they can quite easily be changed on an annual basis at renewal. Whilst they may not issue long- term contracts reinsurers have an expectation that the relationship they establish with the reinsured entity will be in place for a considerable time. In any case, there is not a lot of merit in rapid changes in reinsurance contracts. One or two reinsurers may be changed on a treaty for a variety of reasons but any more extensive changes would be subject to searching enquiry as to the underlying reasons for this movement in reinsurers.

10.1 WHY DO CAPTIVES REINSURE?

10.1.1 Stability

The captive is designed, initially, to fund the burning cost losses and eliminating the risks in excess of the captive's risk appetite by way of reinsurance helps to preserve stability and protect the captive's balance sheet.

10.1.2 Experience for new captives or new classes of business

Accepting business in a new captive is a new departure for its owners. The manager will have explained to the owner of the captive the value of writing any particular risk but invariably the owner wants to tread softly. Hence in the early years, a captive will look for aggregate stop-loss reinsurance protection and may structure its retention and aggregate limits at a rather cautious level. The same principle applies when considering a class of insurance not previously written by an existing captive. Once experience of the risk has been gained then, of course, the captive is able to accept more risk where it makes economic sense.

10.1.3 Higher capacity

Reinsurance allows a captive to write more of the primary risk than it otherwise could. Where cover is written on the basis of the captive writing a deductible, this is, in effect, the captive writing a net line but even here there will be a need for reinsurance to limit any one loss and aggregation of claims in any one year. However, the reinsurance market also enables a captive to pursue the programme design of taking 100% of a risk and then reinsuring out any risk excess of its own retention.

10.1.4 Reduced accumulations

One advantage of reinsurance is to reduce the potential for accumulation of risk. For example, a captive might be writing accidental damage cover on a motor fleet and be perfectly content to meet losses of up to, say, the value of an individual car or even two or three cars together. There can, however, be accumulation of risk in corporate car parks. Equally under a property insurance, floods or windstorm can create accumulations of loss in a given geographical area. The risk of clash cover can therefore be passed to the reinsurance market for a modest premium.

10.1.5 Reduces capital requirements

Reinsurance provides the captive with flexibility in that, by limiting its exposure to any risk or any one category, it can operate on less capital and use what it has to broaden its portfolio into other lines of business. In effect, the captive is paying to access the balance sheet of the reinsurer.

10.1.6 Security

By reinsuring, the captive is providing security for its own financial position. This may be required by fronting insurers and/or will reduce the security demands of the fronting insurer. Thus, the captive reinsurance placement has to be with reinsurers of high quality.

10.1.7 Acting like a real insurer

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A captive is a bona fide insurer. Insurance companies accept risk and reinsure, obviously to varying extents according to their size. A captive that only wrote a net line and did not reinsure is not following the usual insurer model. To accept relatively high levels of risks and to stabilise this by eliminating the peak and accumulation risks by reinsurance, is exactly what a traditional insurer would do.

10.2 METHODS OF REINSURING

10.2.1 Facultative

This is business offered individually to a reinsurer which they can accept or reject. Many captive reinsurance placements would be facultative. They can be placed on a quota share or pro-rata basis under which the reinsurer takes an agreed percentage of the risk or, more likely, on an excess of loss (non-proportional) basis whereby the reinsurer accepts all risk over the captive's agreed retention.

10.2.2 Treaty

A treaty is where the reinsurer accepts all risks within certain pre-agreed parameters. It is unlikely that an individual captive will have sufficient business of its own to generate its own treaty but it may be involved in a treaty if such has been arranged by the captive manager in which a number of their captive clients can participate.

Treaties can be proportional, i.e. written on a pro-rata or quota share basis or non-proportional, i.e. written on an excess of loss basis. Occasionally a treaty can be termed 'facultative/obligatory'. This might seem to be a contradiction but it refers to a situation, possibly relating to a group of captive clients, where there is a treaty in place and the reinsurer has agreed to accept all business offered but subject to agreement of individual terms for any new client joining the arrangement.

10.2.3 Catastrophic excess of loss

There are specialist reinsurance markets for the highest excess layers. Whilst a captive may reinsure excess of loss, there may be a number of peak risks which it would be more efficient for the captive to exclude from the excess of loss placement and reinsure separately. Thus, there might be a situation, for example, where the captive reinsures excess of a retention of, say, £250,000 up to £100million, representing 95% or more of the portfolio and then have a separate contract on top of that with a different market insuring, say, £400million excess of £100million taking it up to the highest sum insured on the largest premises. This can sometimes be done intentionally by captives or by managers in order to reduce the impact of losses to particular panels of reinsurers by spreading the risk around the market. This helps to preserve the stability of the manager's treaty or the captive's reinsurance.

10.2.4 Aggregate Stop Loss (ASL)

It is normally good practice for the captive's business to be subject to annual aggregate limits. This is because it is then easier to determine capital required to support that business, the capital requirement is lowered and also to provide comfort to the captive board and shareholder that any underwriting losses will not be unlimited. Sometimes these aggregate limits are built into the contract with the fronting insurer with the excess losses reverting to the fronting insurer above an agreed level of loss within the captive. Where the business is written directly by the captive, or where a fronting insurer is unwilling to provide a cap on aggregate claims, then the captive will seek to purchase a stand-alone ASL reinsurance.

10.2.5 Layered programmes

It is sometimes more effective for captives to reinsure on a layered basis. For property reinsurance, the basis of this may come from loss prevention engineering surveys that will produce various estimated levels of loss according to recognised risk assessment techniques. The first might be the Expected Maximum Loss (EML) if all of the risk protection systems function properly, the second might be the Probable Maximum Loss (PML) if, possibly, the automatic systems failed to operate and the third might be the Maximum Foreseeable Loss (MFL) where it burns unnoticed, unreported, without protection and without the fire services. Reinsurance could be placed in layers corresponding to these particular thresholds thus spreading the risk across the market with, possibly another layer on top, being the difference between the maximum foreseeable loss and the total sum insured. Without this sophistication another method is to structure levels of reinsurance to maximise capacity and minimise cost. This might be undertaken for liability reinsurance. The captive might insure, say, £10 million excess of its own aggregate retention and then a further layer of £40 million excess of that taking a total cover up to £50 million with, if required, further layers over that.

A layered reinsurance programme might be used by a captive that wanted total control over the security of the reinsurance. If all of the risk was written under one policy the reinsurers involved would probably need to reinsure themselves and their reinsurers might further retrocede so that the purchaser was unaware of the ultimate security. Of course, the initial reinsurer is ultimately responsible but the failure of its retrocessionaires could easily undermine its own stability. With a layered programme the client could take advantage of the different risk appetites and pricing methodologies of reinsurers, some of whom prefer to engage at working layers and others at higher excess layers. It would enable the risks to be placed closer to net lines so that the captive could monitor the financial security of each reinsurer relative to the amount of risk that they were accepting. The problem with the layered programme, particularly under property insurance, is that there might be a tendency to rely too much on estimated maximum losses quoted in engineering reports and forgo the higher layers of cover, to reduce cost. This can leave the captive or the parent group exposed. If a layered programme is used, it is recommended that the top layer be one that takes the values covered up to the highest potential sum insured regardless of engineering loss estimates.

10.3 WHO MAKES UP THE MARKET?

10.3.1 Brokers

Some insurance brokers concentrate on retail i.e. dealing with the individual primary client, others deal with both insurance and reinsurance and there is a significant cohort who concentrate entirely on reinsurance.

10.3.2 Underwriting agencies

These are agencies who ‘hold the pen’ of insurers or reinsurers from around the world. These tend to be small reinsurers who want to write a wide variety of business but do not want to set up their own offices. They therefore give underwriting authority (their underwriting pen) to an agency to write business of certain types and within certain parameters. Their underwriting limits tend to be small, even when the agency might write for a number of reinsurers in one acceptance, which tends to mean that these people do not get a share of the attractive business, nor do they tend to offer the highest security.

10.3.3 Contact/representative offices

These are a step up from an underwriting agency in that they are the representative (branch) office of a particular reinsurer. The staff are directly employed by the reinsurer but tend to be more sales focused than technical. They usually need to refer cases elsewhere for acceptance and underwriting lines also tend to be small.

10.3.4 Insurance companies writing reinsurance

Most of the large insurance companies also write reinsurance either through a specific department or by having a separately registered reinsurance company. By this means an insurance company, who might be losing business because its client has formed a captive, can re-secure a part of that business by participating as a reinsurer.

10.3.5 Lloyd's

Whilst some of the largest syndicates can write both primary and reinsurance business, there are specific syndicates concentrating on reinsurance. The specialisation of reinsurance, i.e. those who want to be involved in working layers at higher premiums and those who want only to be involved in the high excess layers with lower premiums but less chance of claim, is very apparent in the Lloyd's market.

10.3.6 Professional reinsurers

These form the majority of the reinsurance market. There are a number of extremely large professional reinsurers with many smaller reinsurers, some of which only operate in a particular niche of the market. The largest players, such as Swiss Re and Munich Re possess a depth of expertise and offer the highest security. When moving away from the well-known names, great care needs to be taken to check financial security.

10.3.7 Bermuda market

There are a considerable number of reinsurers based in Bermuda. These reinsurers have significant capacity and often participate in the placement of catastrophe exposures such as windstorm and earthquake. Bermuda is also a captive domicile and as a result the Bermudian reinsurance market is receptive to captive business and therefore is quite a natural choice for placements requiring large capacity.

10.3.8 Retrocessional markets

A reinsurer further reinsuring risk has been referred to previously. This further reinsurance is known as a retrocession. Many reinsurers accept business either from primary insurers or from reinsurers, i.e. they write reinsurance and retrocessions but there are other markets who only write as retrocessionaires, i.e. they only write business from reinsurers, which implies in the main, that they are more interested in excess layers than in working layers. A captive is unlikely to get involved in dealing with these markets. This is an area where financial security needs to be checked as such retrocessionaires may well be writing high liabilities relative to premium and may not have the spread of risk available to the more traditional market. Hence the need for care in placing large reinsurance lines with underwriters who clearly will need to retrocede the upper layers.

10.4 HOW TO APPROACH THE REINSURANCE MARKET

Some captive boards and owners, possibly those using a small independent manager, may wish to exert full control and place their reinsurance on a direct basis. This may be fine for straightforward easy to place risks when the market is soft, but it is unlikely that any captive board or owner can match the experience available within a reinsurance intermediary who is in close touch with a wide market on a daily basis. Just as it is unusual for a captive to be self-managed, because the board wishes to access the expertise of a captive manager (quite apart from the cost element) so it makes sense for a captive to employ the skills of a reinsurance broker. The broker will be remunerated, either by fee or commission, but as they have a much wider market available to them and considerable experience, the appointment should add value and avoid any gaps in cover. Contact with the market can also be via the captive manager. Obviously, those managers that are part of brokers' organisations will have their in-house facilities available but the independent managers will often have arrangements directly with reinsurers for particular lines of business or built relationships with one or more reinsurance brokers.

It has to be remembered that reinsurance of the captive is the responsibility of the captive, not the parent/insured. It is therefore up to the captive to decide how, and with whom, its reinsurance risk is placed and with which broker, if any. This does not need to be the same broker who handles the primary business although some brokers claim greater efficiency with the same broker handling retail and reinsurance of the captive. There is a potential conflict in this model which should be recognised and managed

10.5 CRITERIA FOR SELECTION OF REINSURERS

The main criteria that the captive board should consider when selecting reinsurers, bearing in mind that even when placed through a broker the board would have the final monitoring and approval of any placement, could be summarised as:

10.5.1 Financial strength and stability

This is, without question, the overriding paramount criterion. The financial security and claims paying ability of reinsurers should be at least as strong as the primary market that has just been replaced or at least as good as the fronting company. This level of financial security may vary according to the size of the risks placed and the length of tail on the business, i.e. a captive might be slightly more relaxed with regard to security rating for a short tail property reinsurance than they might be with some high exposure, long tail liability placement.

10.5.2 Long-term commitment to reinsurance

Market insurers can, from time to time, view participating in reinsurance as an opportunity to extend their business into what they see as a profitable line of business. This tends to happen more in the soft markets where insurance companies might be looking for means of maintaining their premium flow. Most of these ventures into the reinsurance market, bearing in mind that they tend to happen during soft market conditions, often end in "burned fingers" due to insufficient reinsurance expertise and the rapid withdrawal of the insurance companies concerned. The ideal time to enter the reinsurance business is, logically, during a hard market but these opportunist insurance companies are often more focussed, in a hard market, with handling the increases in existing and new business and are unable to pursue a reinsurance strategy as well. The captive will want to be certain that any reinsurer appointed demonstrates a long-term commitment to the reinsurance market and is likely to be there to provide the protection required for the foreseeable future.

10.5.3 Professionalism

How deep is the knowledge of the reinsurer? Whilst reinsurance business is more of a financial business, there is, nevertheless, a need for the reinsurer to understand the fundamentals of the business sector from which it is assuming risk. This is particularly true for a captive where the reinsurer would be looking at a specific insured rather than the spread of business sectors typically seen by a traditional insurer. What has to be checked on here is, for example, the traditional liability insurer suddenly getting involved in property reinsurance. Are they writing their line on the back of the leader or do they have their own underwriting expertise? What is their long-term objective?

10.5.4 Reputation

Clearly a captive would want to reinsure with reinsurers of the highest reputation.

10.5.5 Specialisation

Is the reinsurer specialised in the type of business that the captive is placing, or is its specialism in totally different classes of business and is getting involved in this treaty merely to increase premium volume? This could imply that its long- term commitment is questionable.

10.5.6 Geographical spread

Does the reinsurer have knowledge and experience in all of the territories in which the captive is involved? This doesn't mean that they have to have subsidiary companies or fully fledged branches but do they have sufficient experience of writing business that they can be of assistance in the event of any claims or offer engineering services? This is a particular strength of leading reinsurers.

10.5.7 Economic considerations

Will the reinsurer be able to pay and will they be able to pay promptly? This is not an aspect limited to pure financial strength but could relate to whether the reinsurer operates in a territory with exchange control restrictions.

10.5.8 Capacity available

Some reinsurers may be tempted to take larger lines of attractive business and then pass this on to retrocessionaires, often at a lower rate and so enjoying the advantage of commission. The captive should be looking at the normal underwriting capacity of a reinsurer both per risk and in the annual aggregate to get an understanding as to how close it is to writing as a net line. Obviously for an extensive reinsurance arrangement, required for the larger and more complex risks, it may not be possible to achieve net line writing by all reinsurers but acceptance of a line clearly many times in excess of a reinsurer's normal net retention should be questioned.

10.5.9 Partnership continuity

Can there be a relationship established with the reinsurer who will stick with the business throughout a market cycle and create a continuous partnership? This is important when dealing directly with a major reinsurer when both parties should welcome continuity.

10.5.10 Technical support

Does the reinsurer maintain technical departments that could be called upon for the captive's use such as specialist loss prevention engineers or accident prevention engineers, actuaries, legal facilities or other technical help?

Obviously, the importance of some of these aspects will vary according to the risks being placed and the number of reinsurers involved but there are many very large professional global reinsurers where the answer to all of the questions is very much in the positive.

10.6 REINSURERS' CONSIDERATIONS REGARDING CAPTIVES

Reinsurers need to have confidence in their ceding insurer. They can be very interested in captive business as they can look at it closely, possibly exert more influence over it and as the ultimate client is retaining a significant portion of the risk there could be a commitment to high levels of risk management leading to profitability. The following aspects would be considered by a reinsurer when assessing whether to be involved in a significant captive portfolio.

10.6.1 Retention by captive

The amount of the captive's retention is important from a number of aspects. Is the captive merely being used as a conduit to place the risk directly into the reinsurance market, with the captive securing commission, or has a genuine risk bearing vehicle been formed and does the retention represent the absorption of all the modelled burning costs? Is that retention meaningful, does it bear the right relation to the risk and to the financial strength of the parent group and does it show a true commitment to accepting the primary risk?

10.6.2 Financial strength of captive

Does the capitalisation of the captive represent a proper commitment? Is it sufficient to meet all potential obligations of the captive with, possibly, some to spare or does it hold the absolute statutory minimum just sufficient to meet solvency margins? If the captive has been operating for a while, has it built up any retained earnings? What has been the dividend policy of the captive? Are profits striped out quickly and returned to the parent group or are earnings maintained in the captive to bolster its financial strength and create greater risk bearing capacity?

10.6.3 Long-term or emergency solution

Has the captive been set up to address a short-term distressed situation and if so, has that been addressed in a manner to deliver a long-term solution? For example, captives set up by banks and building societies to handle mortgage indemnity could be looked as fast solutions but they were set up in a manner that indicated there was a long term commitment, and indeed, some signed ten year reinsurance agreements. Basically, what the reinsurer is looking to establish is whether it is likely to have a long-term relationship with the captive.

10.6.4 Professionalism of the captive

This will cover a number of areas.

i) What is the risk management attitude of the parent company? What is the loss experience of other lines of business apart from the risk which might be the subject of the reinsurance and what has been the group's attitude overall towards insurance and risk management? Do they have a regular schedule of professional loss prevention engineering surveys?

ii) How are claims being handled? Has this been approached professionally with proper systems introduced including the use of loss adjusters that will satisfy the reinsurers?

iii) Finally, who are the captive managers? They may be an offshoot of the placing broker or may otherwise be another very professional manager well known to the reinsurer. On the other hand, if it is a boutique manager operating from a single domicile the reinsurer might wish to understand the experience held. This is by no means to say that small management operations should not be appointed but the reinsurer will be looking at the level of technical support and experience available to the captive.

10.6.5 Territories covered

Most reinsurers operate world-wide but are risk located in countries which historically have created problems to the reinsurer because of, perhaps, claims attitude, high loss experience due to weather or vandalism or money flow problems and the like? Are there any potentially adverse political/religious problems or sanctions in place? They might also ask what further territories are likely to be added to the programme in the future.

10.6.6 Trade or business covered

Obviously, the business of the parent group is particularly important. What is the parent group's standing in that particular business? Do they have a modern up-to-date culture and values with high levels of risk management? Is it, indeed, a business in which the reinsurer wishes to be involved?

10.6.7 Reinsurer's technical involvement

For the large risks the reinsurer may wish to bring in their own technical expertise, initially for underwriting purposes. What is the captive's attitude to this suggestion? How will this fit in with any other technical surveys undertaken on behalf of the captive either by fronting insurers, the parent group themselves or independent consultants? This involvement could extend into claims where, with a captive, it is not unusual for the reinsurer to insist that they have the right to be involved and possibly appoint an adjuster in the event of losses approaching its reinsurance layers.

10.6.8 Attitude towards reinsurance

The summary of much of the above will indicate the ultimate insured's attitude towards reinsurers. One extreme might be an insured taking the minimum retention and looking for the cheapest reinsurance at a level where there is a good likelihood of it being penetrated. At the other extreme there are clients who truly aim to retain all the perceived burning cost losses within the captive and are looking for a long-term relationship with reinsurers of high financial security, obviously at an economic rate, who would be there to cover the true catastrophe rather than the inevitable. If it is not a new captive, the reinsurer will probably examine the past reinsurance programme and the reasons for any changes.

10.7 UNDERWRITING CRITERIA APPLIED BY REINSURERS

Having looked at the above general aspects to see whether this is, potentially, an acceptable client, the reinsurers will then look at the underwriting detail to consider their own participation and rating. The aspects they will be looking for are as follows:

Module F Unit 13

Reinsurance protection

10.7.1 Exposure

Vertical exposure and overall size of the risk and potential for accumulation by fire, explosion, flood, windstorm or other peril.

10.7.2 Catastrophe loss potential

Do the operations of the insured present a risk of vapour cloud explosion or are there any flood, earthquake, windstorm or adverse surrounding risks? What has been done to protect against these catastrophes?

10.7.3 Construction and fixed loss protection

Have the premises themselves been designed to protect the hazardous areas or prevent loss spread? Are fire walls installed with fire doors? Are there sprinkler systems or other automatic protection or merely alarm systems? Is there an internal fire brigade?

10.7.4 Loss estimates

How have these been calculated? The terms EML, PML or MFL have a variety of meanings and methods of calculation and these need to be clearly defined. Also, have they been calculated professionally by high quality loss prevention engineers?

10.7.5 Original rate

The reinsurance premium has to have some relationship to the original rate and to market terms, whether or not the reinsurance is based on a percentage of the original rate or is a fixed premium. The captive needs to retain sufficient of the premium to meet its own obligations.

10.7.6 Experience

How robust are the ‘as if’ projections based on the current rating? These are calculations showing, on the basis of a projected loss experience typically based on the historic loss records. How would differing claims experience scenarios affect both captive and reinsurer?

Has the experience been a result of bad luck or bad management? If the latter, what improvements have been made? Conversely, is a good experience due to good luck or good management? What is the risk management attitude of the organisation, is this tried and tested or relatively new?

Is the experience due to one or two major losses which can be explained and whose exposure has been better managed for the future, or is it due to a relatively high frequency of loss? If the latter, quite apart from what the risk management approach has been, there will be the need to ensure that the regular losses are being picked up by deductibles or captive retention.

10.7.7 Payback

How many years of reinsurance premium would be needed to recoup a total loss? Reinsurers are not looking here for recouping catastrophe level losses, because their model is to spread collection of premium over more than one insured, but could be applicable for those losses that might be considered as normal business.

The captive should ensure that, in any submission to reinsurers, it provides reinsurers with all of the background and underwriting information to enable them to make informed decisions. A full detailed written submission will also demonstrate to the reinsurer the professionalism of the captive and the fact that it and its manager understand the role of reinsurance and what information the reinsurer requires. A poor, ill-prepared submission will not attract the best quality reinsurers or encourage them that this is a client with whom they may want to invest in a long-term relationship.

The one thing to remember with reinsurance is that after the initial acceptance, it is results that count. That is not to say that there will be dramatic changes after a single loss but if a series of losses or incidents occur outside that which has been projected, the reinsurer is rapidly going to change his terms and conditions.

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Reinsurance protection

Self-test questions

Answering these questions will remind the participant as to what has been learnt. Once completed, please check your answers against the relevant text.

1. Give two reasons why pricing of risk by a reinsurer is different to insurance?
2. Name three markets that offer reinsurance?
3. Provide two reasons why captives purchase reinsurance?
4. Why do some captives purchase Aggregate Stop Loss Reinsurance?
5. Name three criteria a captive might consider when selecting a reinsurer?
6. It is recommended you read the GFSC guidance note with regard to reinsurance.

Summary of learning outcomes
1. Demonstrate general understanding of the reinsurance market.
2. Explain why captives purchase reinsurance.
3. Describe the different types of reinsurance available and reasons for their selection.
4. Explain the criteria for selecting a reinsurance company.
5. Describe the reinsurer's considerations regarding provision of protection to captives.
6. Describe the expectations of the GFSC with regard to a policy for reinsurance.