

Module J Unit 17D

SERVICE PROVIDERS – INSURANCE AND REINSURANCE BROKERS

Purpose

At the end of this unit the participant should understand the different roles performed by an insurance and a reinsurance broker.

Assumed knowledge

None

Summary of learning outcomes
1. Explain which party appoints an insurance broker.
2. Explain the role of an insurance broker.
3. Explain which party appoints a reinsurance broker.
4. Explain the role of a reinsurance broker.

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17.0 INSURANCE BROKER

The parent organisation will typically appoint an insurance broker to assist in the placement of its insurance programme.

It is good practice that the Insurance Manager builds a strong working relationship with the appointed broker. Both may be part of the same organisation as many broking houses also offer captive management services or they may be separate organisations. Regardless they should work closely together, as each has a distinct and separate role to play, to ensure the proper and efficient operation of the captive.

Regular meetings between the broker and captive manager aid the relationship, especially so in the run up to renewals.

There needs to be clarity as to responsibilities and accountability for numerous activities including the timetable for premium payments which should be closely monitored.

17.1 REINSURANCE BROKER

Unlike the Insurance Broker the appointment of a reinsurance broker by the captive is the responsibility of the captive board. Even where the same broking organisation is selected to undertake insurance placements to the captive and reinsurance placements for the captive there should be separate Terms of Business put into place for the placement of reinsurance and these should be approved by the captive board together with the brokers remuneration.

There are broking firms that specialise in reinsurance placements rather than insurance. These brokers have strong relationships with the reinsurance market, and this can be of great value to the captive. Some captive owners prefer the accountability and ease of using one provider for all broking appointments and the captive board may be asked to consider this when deciding on a reinsurance broker.

It is best practice when placing reinsurance on behalf of the captive that the information required to be submitted to the markets should pass through the captive so that the Insurance Manager and board are aware, and approve, as to what representations are being made to the reinsurers about the risks to be placed. There is often a temptation for the information to flow from the parent group directly to the reinsurance broker (or via the insurance broker) and onto the reinsurance market. This should be resisted and the proper information channels established in line with contractual arrangements.

Equally claims notifications should flow from the parent group, via the insurance broker, to the captive as its insurer and the captive in turn needs to notify its reinsurance broker who will advise the reinsurers. Claims reimbursements will follow a similar pattern.

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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. Why should an insurance broker and the insurance manager collaborate?
2. Who appoints the reinsurance broker?
3. What is the role of the reinsurance broker?
4. How should the reinsurers be made aware of a claim?

Summary of learning outcomes

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|-------------------------------------------------------|
| 1. Explain which party appoints an insurance broker. |
| 2. Explain the role of an insurance broker. |
| 3. Explain which party appoints a reinsurance broker. |
| 4. Explain the role of a reinsurance broker. |