

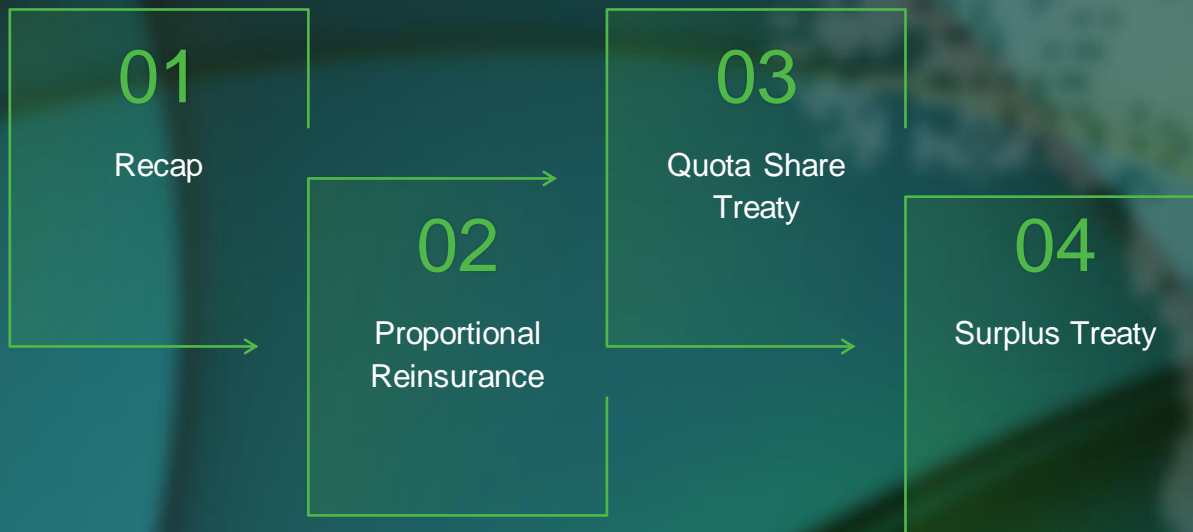
Proportional Reinsurance

17th June 2021

Tafadzwa Mugadza and Suhail Solim



Agenda



1

RECAP





Purpose of Reinsurance

- Capacity Relief
- Catastrophe Protection
- Surplus Relief
- Stabilisation of results
- Market entrance and withdrawal
- Expertise



Forms of Reinsurance

- Obligatory/Treaty
- Facultative



Proportional Reinsurance

- Quota Share
- Surplus
- Facultative proportional

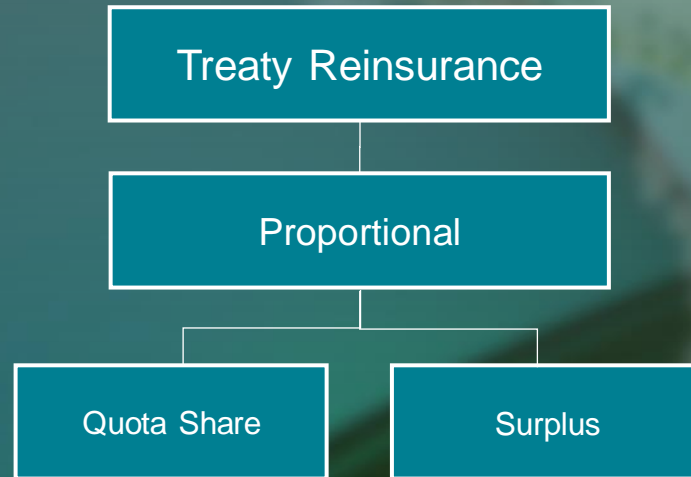


Non Proportional Reinsurance

- Also known as Excess of Loss
- Working Covers
- Umbrella covers
- Catastrophe covers

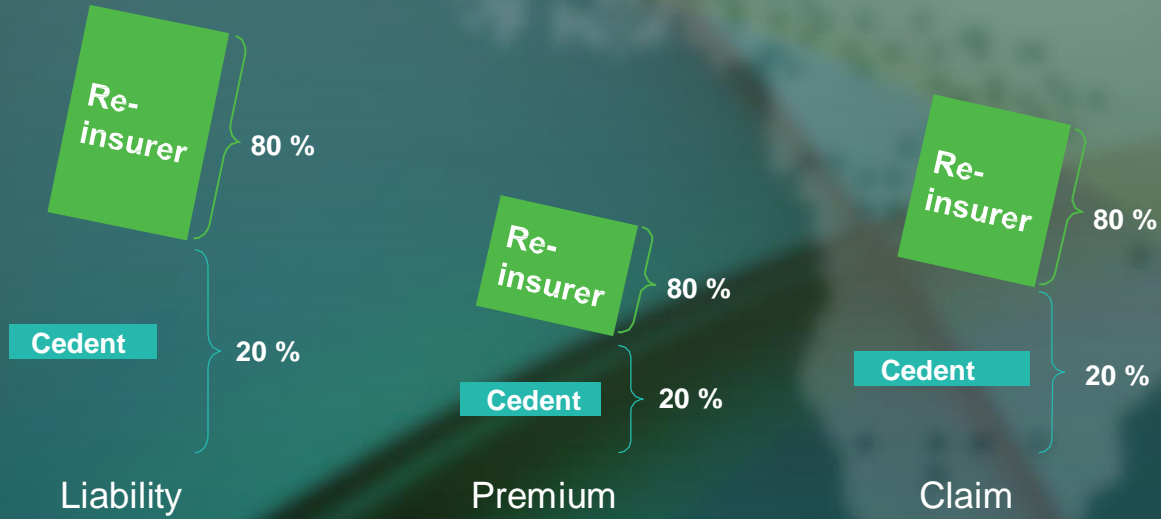
2 PROPORTIONAL REINSURANCE





Proportional Reinsurance

Liability, premium and losses are split proportionally



3 QUOTA SHARE

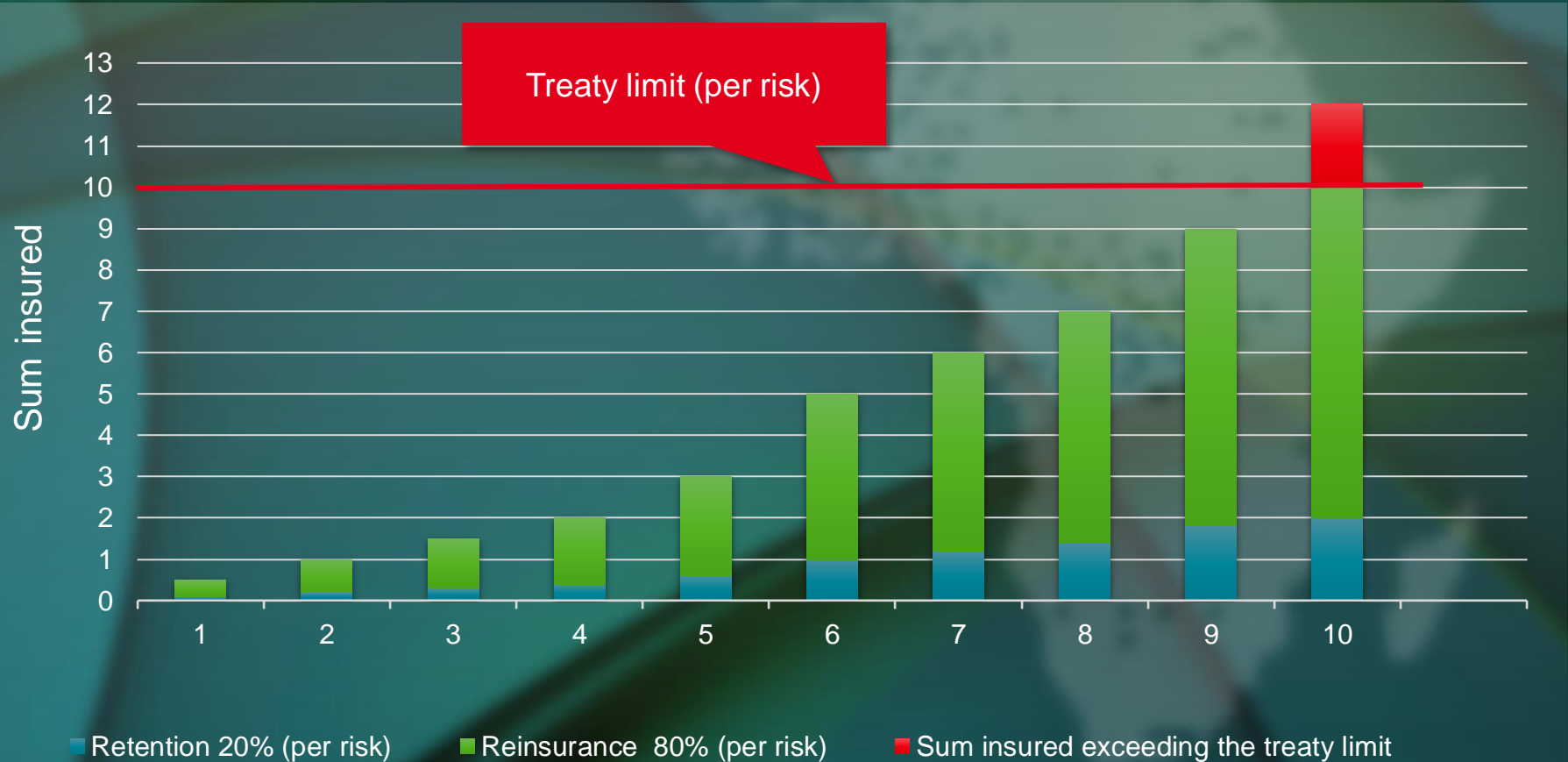


The ratio of retained liability to ceded liability is the same for each and every risk UP TO the treaty limit .

The insurer cedes a fixed percentage of liabilities, premiums and claims, irrespective of the sum insured .

The treaty limit is a fixed amount .

Quota Share Treaty



Proportional Reinsurance

+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000

	Loss	Cedant	Reinsurer
Risk 2	300		
Risk 6	700		
Risk 9	1,000		
Risk 10	1,000		

Proportional Reinsurance

+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000

	Loss	Cedant	Reinsurer
Risk 2	300	60	240
Risk 6	700		
Risk 9	1,000		
Risk 10	1,000		

Proportional Reinsurance

+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000

	Loss	Cedant	Reinsurer
Risk 2	300	60	240
Risk 6	700	140	560
Risk 9	1,000		
Risk 10	1,000		

Proportional Reinsurance

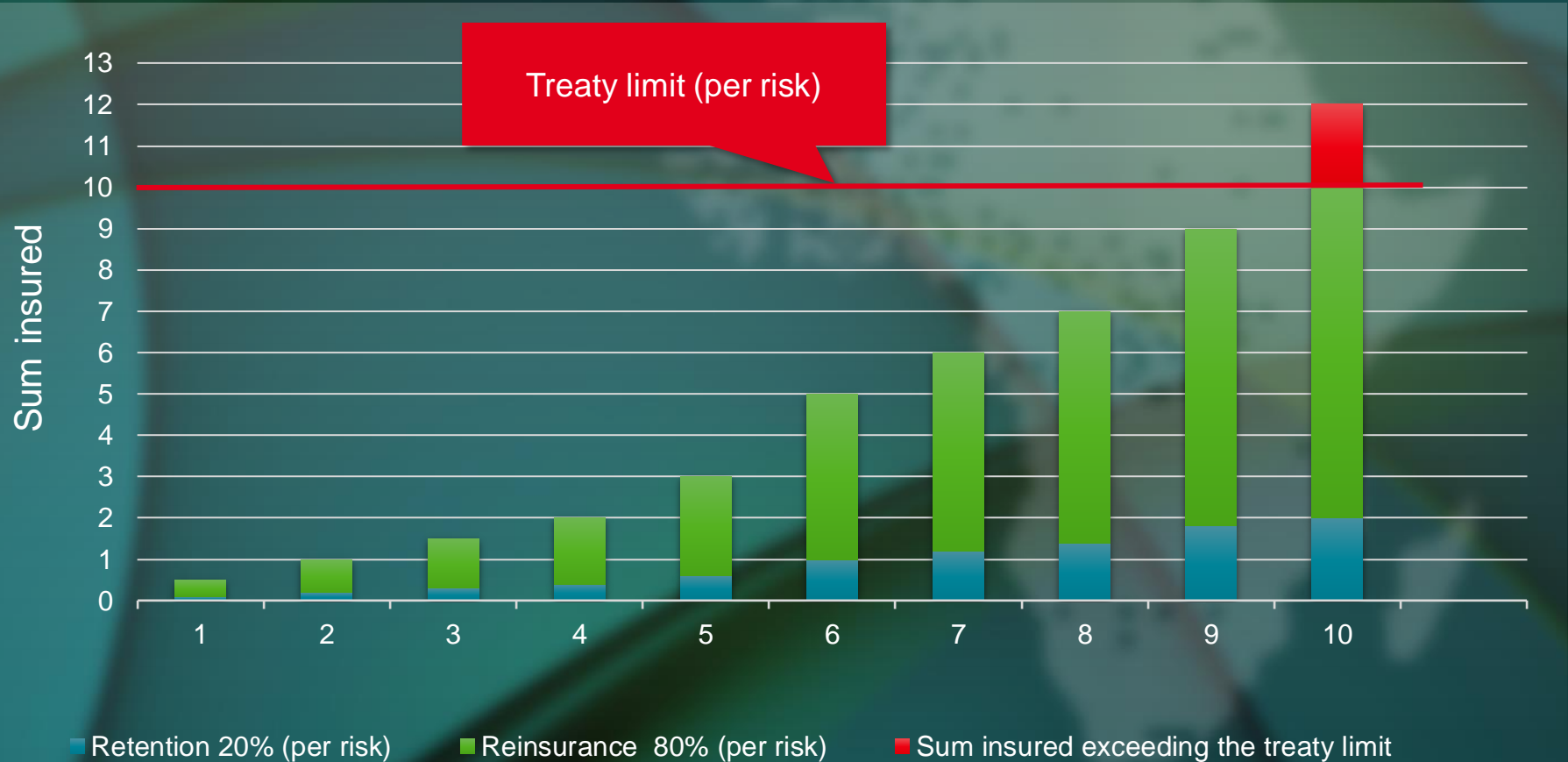
+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000

	Loss	Cedant	Reinsurer
Risk 2	300	600	240
Risk 6	700	140	560
Risk 9	1,000	200	800
Risk 10	1,000		

Quota Share Treaty



Proportional Reinsurance

+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000

	Loss	Cedant	Reinsurer
Risk 2	300	60	240
Risk 6	700	140	560
Risk 9	1,000	200	800
Risk 10	1,000	200	800
Risk 10	12,000	??	??

Proportional Reinsurance

+ Cession to Reinsurer ~ 80%

+ Retention by insurer ~ 20%

+ UW Limit 10,000,000

	Loss	Cedant	Reinsurer
Risk 2	300	60	240
Risk 6	700	140	560
Risk 9	1,000	200	800
Risk 10	1,000	200	800
Risk 10	12,000	4,000	8,000

Advantages (for the insurer)

- Simple to administer
- Reinsurer participates in all claims
- Expansion of capacity (Equity substitution)

Disadvantages (for the insurer)

- Unnecessary cession of premium for low sums insured risks
- May not be appropriate for a non-homogeneous portfolio
- Cedent may retain higher losses on larger risks.

4 SURPLUS



Reinsurance is limited to risks where the Sum Insured exceeds the agreed retention (**fixed amount**) of the insurer (= line).

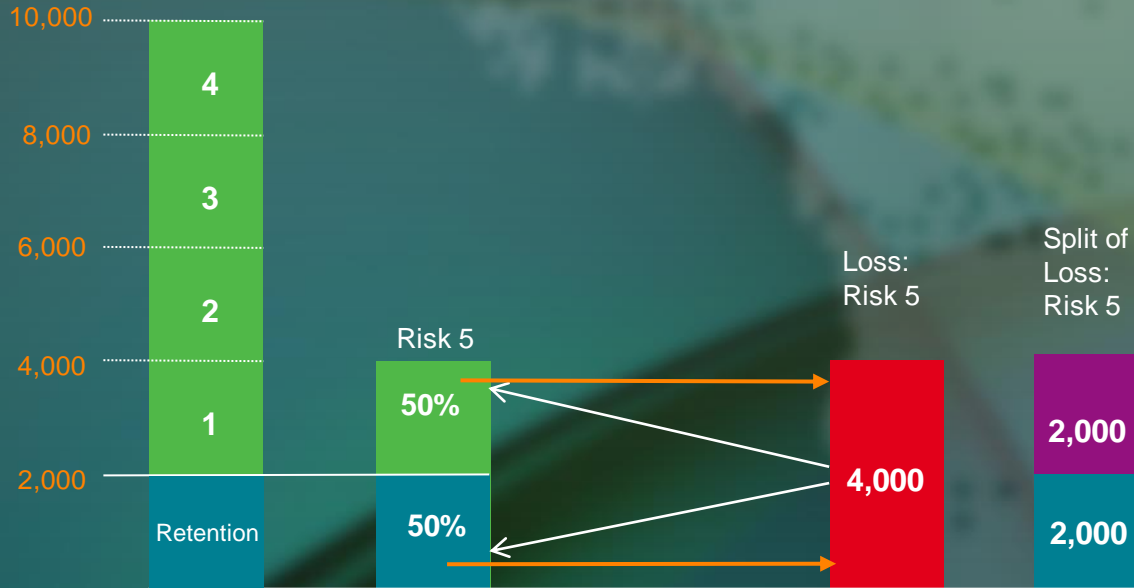
The ratio of retained liability to ceded liability has to be calculated for every single risk separately.

The treaty capacity is limited to a multiple of the insurer's retention (= lines).

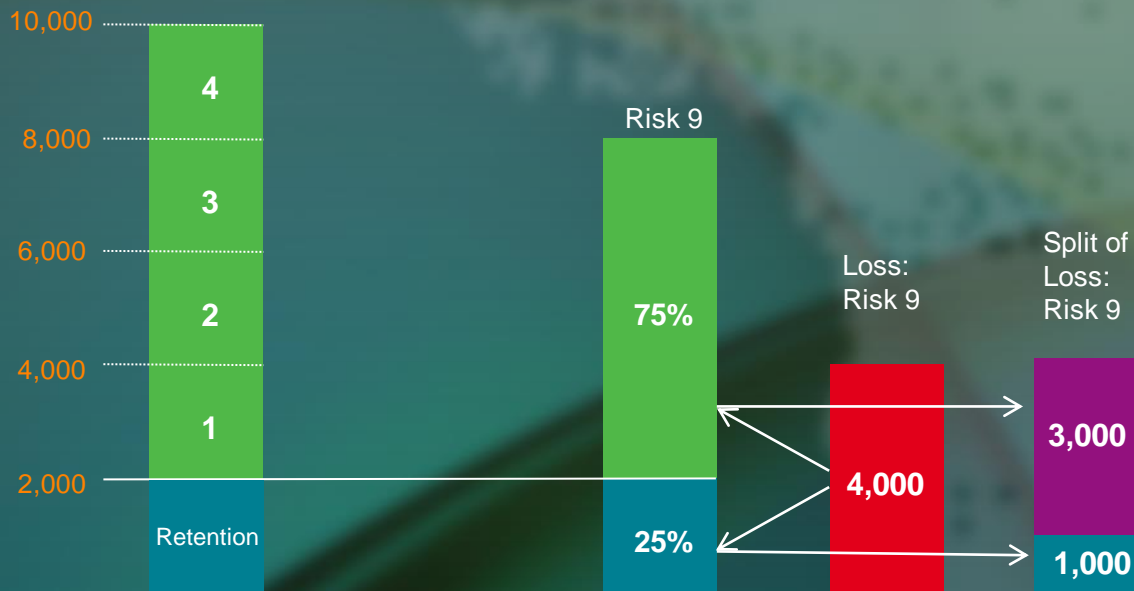
Surplus



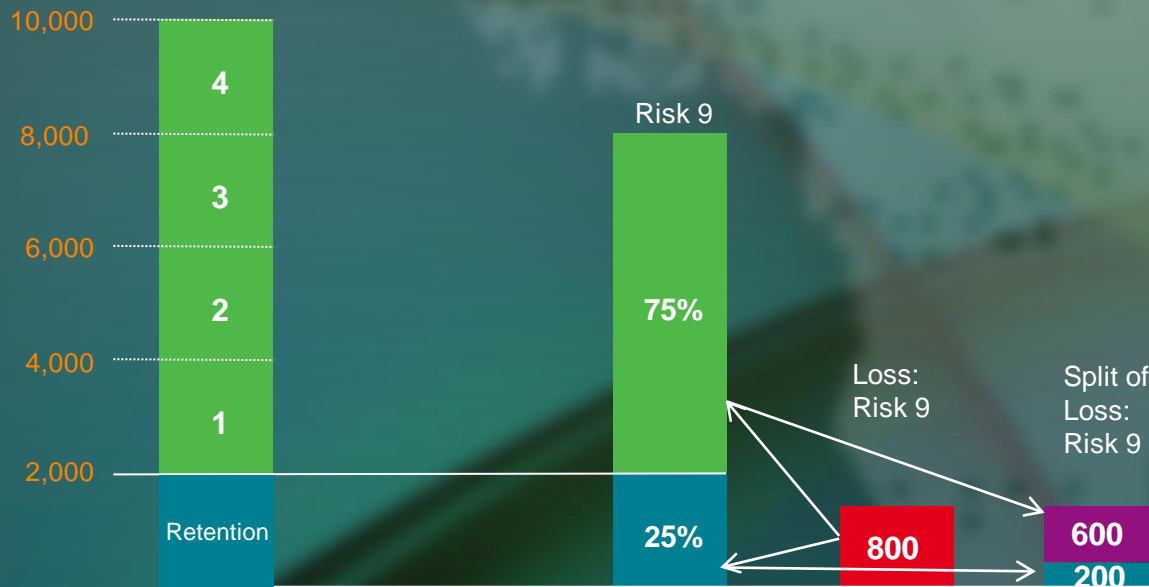
Surplus Example



Surplus Example



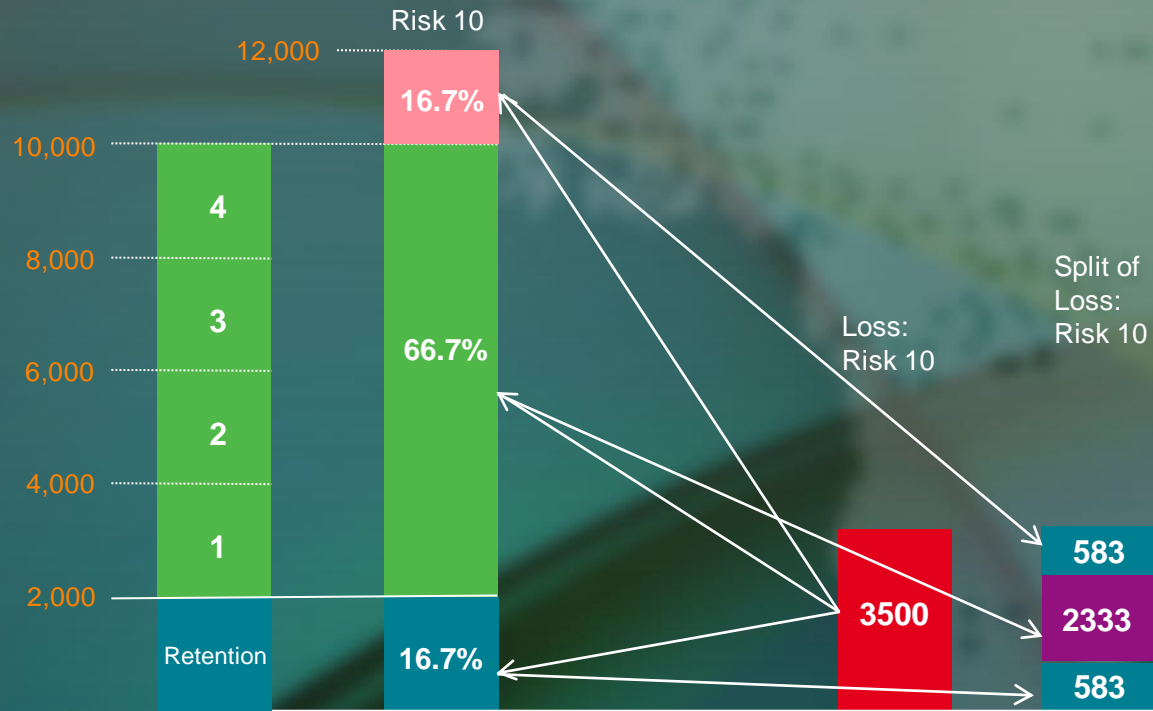
Surplus Example



Surplus



Surplus Example



Advantages (for the insurer)

- Balances the portfolio
- No unnecessary cession of premium for low sums insured
- Expansion of capacity (equity substitution)

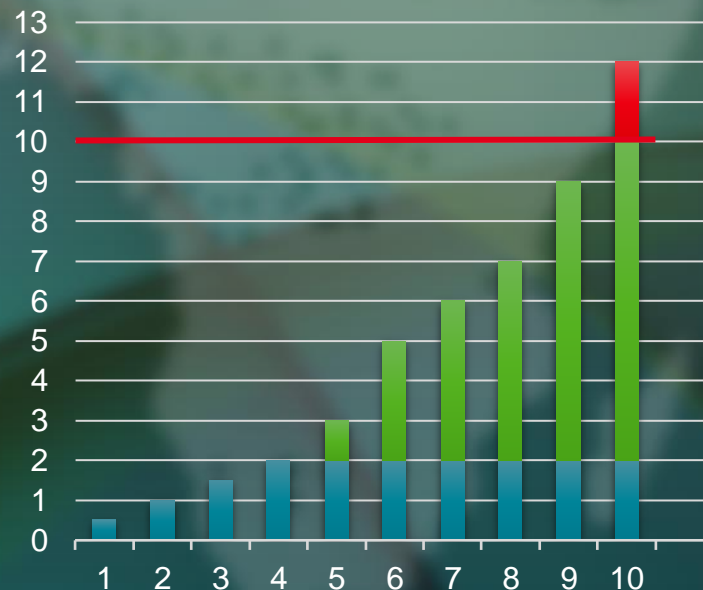
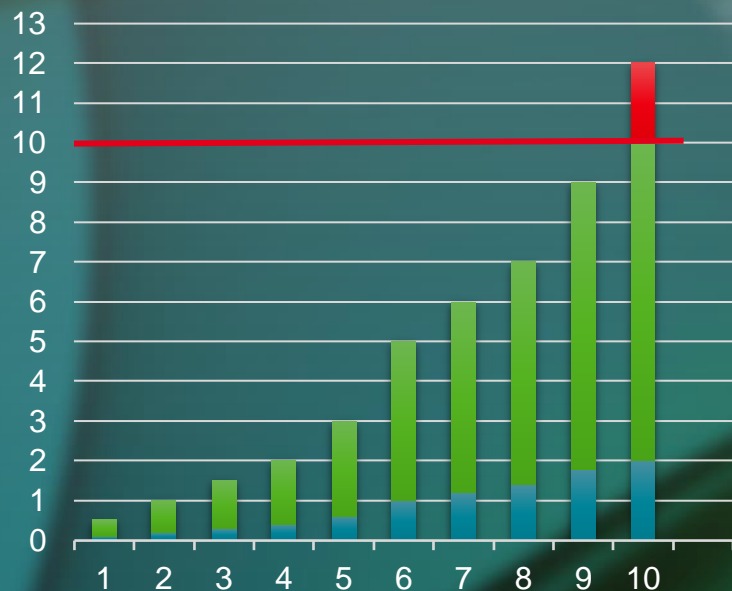
Disadvantages (for the insurer)

- More administration
- Limited protection against risk of error/risk of change

Comparison Quota Share vs. Surplus

Quota Share

Surplus



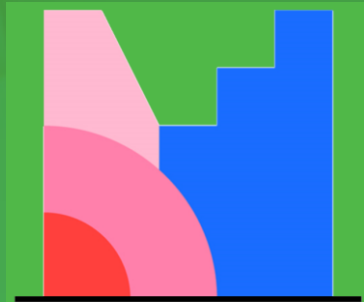
Thank you!

17th June 2021

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Your feedback matters



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