

Introduction to reinsurance

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Definition

- **The transaction whereby the Reinsurer, for a consideration, agrees to indemnify the Company against all or part of the loss the Company may sustain under the policy or policies it has issued**
- **Asuransi kembali risiko yang diterima asuradur kepada reasuradur baik sebagian maupun seluruhnya**
- **Suatu asuransi untuk asuradur/ underwriter atas kerugian besar yang mungkin diderita dari pekerjaan operasional asuradur tersebut, dan suatu cara pengalihan sebagian liability yang diterima asuradur dari bertanggung, kepada reasuradur**

Reinsurance is an insurer's RISK MANAGEMENT DEVICE → Risk Transfer Mechanism for Insurer

Role of Reinsurance

- **Micro Level**

- Akseptasi risiko yang melebihi kapasitas keuangan perusahaan asuransi
- Perlindungan risiko katastropik
- Stabilisasi keuangan/ hasil underwriting perusahaan asuransi
- Provide a specific economic advantage (dalam bentuk Komisi Reasuransi)
- Membantu permasalahan regulasi terkait Solvabilitas

- **Macro Level**

- Meningkatkan keamanan pemegang polis (tertanggung) & stabilitas jangka panjang industri asuransi
- Membantu kebutuhan akseptasi *mega size risks*

Pengembangan produk baru

Membantu peningkatan *insurance knowledge & expertise*

SELLERS & BUYERS OF REINSURANCE

- **Professional reinsurance companies (do not transact *primary insurance*)** → domestic, international, Ilyods syndicate, etc
- **Insurance companies (through their reinsurance dept)**
- **Reinsurance pools**
- **Captive reinsurer**

Reinsurer bisa mereasuransikan kembali sebagian dari risiko yang diterimanya dari Asuradur

- **Transaksi ini disebut *retrocession***
- **Pemberi bisnis dalam transaksi ini disebut *retrocedant***
- **Penerima bisnsi disebut *retrocessionaire***

METHODS of reinsurance

- **Proportional**
 - Esensi: terdapat pembagian (*sharing*) *original risk* antara asuradur dgn reasuradur secara proporsional
 - Proporsi *risk sharing* digunakan untuk membagi premium & loss yg terjadi
 - *the act of reinsuring a risk* → **cede**
 - *the unit of insurance ceded* → **cession**
 - *the one who cedes* → **cedant**

Methods of reinsurance

- **Non Proportional**

- Tidak ada *risk sharing*, *premium* maupun *losses* secara proporsional
- *Reinsured* menanggung kerugian sampai dengan batas nilai tertentu
- *Reinsurer* akan menanggung nilai kerugian yg melebihi tanggung *reinsured*, sampai dengan limit tertentu
- *Reinsurer* mendapatkan sebagian dari total premi *protected portfolio*
- Perusahaan asuransi dalam hal ini disebut *reinsured*

Baik metode Proportional maupun Non Proportional, reasuransi dapat ditempatkan mekanisme **Treaty** atau **Facultative**

Methods of reinsurance

□ **Treaty**

- *legally binding agreement between reinsured and reinsurer*
- *standing facility providing **automatic capacity***
- *proportional treaty normally long-term contracts*
- *cedant wajib memberikan sesi risiko yg sesuai dengan **treaty terms**, & reinsurer wajib menerima sesi risiko tsb*
- pada umumnya, tidak ada batasan jumlah risiko yang bisa disesikan ke dalam treaty; dan
- pada umumnya tidak ada batasan jumlah (frekuensi) kerugian yang dapat di-recover dari reasuradur
- Nilai sesi risiko dibatasi dengan limit treaty

non proportional treaty usually annual contracts & 'vertical coverage'

Methods of reinsurance

- **Facultative**
 - Penempatan reasuransi untuk *individual risk* atau yg bersifat kasus per kasus
 - Sifatnya *optional* (kebebasan) baik bagi asuradur maupun reasuradur
 - Penempatan ini biasanya diperlukan untuk risiko yg tergolong *beyond capacity of the treaty*

Methods of reinsurance

- **Proportional Treaty**

Karakteristik:

- Detail risiko/ kerugian tidak dilaporkan kepada reasuradur, tapi untuk treaty dengan volume/ portofolio kecil atau utk COB tertentu (specialised classed) biasanya terdapat pelaporan dalam bentuk ***bordereaux***
- *Obligatory by nature*
- *Long-term arrangements & for an unlimited period (unless cancelled)*
- *Applies to the entire business of a **class** written by the cedant*
- *Reinsurer gives commission on the premium ceded*
- *Amounts payable (premiums/losses) are settled through periodic accounts*

METHODS OF REINSURANCE

- **Proportional Treaty - Advantages**

- Less administration (compare to facultative)
- Automatic underwriting capacity
- Relationship with reinsurer developed (due to long-term nature)
- Commissions (both RIC & PC) as additional income for cedant

- **Proportional Treaty – Disadvantages**

- Giving away substantial premium to reinsurer
- Reduction in Terms & cancellation due to bad results for a number of years
- Approval of the reinsurer may be required for changes in underwriting policy

Types of Proportional Treaty:

Quota Share; Surplus; Facultative Obligatory

METHODS OF REINSURANCE

- **Non Proportional Treaty**
 - Reinsurer is liable only for losses in excess of agreed amount (priority/ deductible/ underlying retention/ attachment point) and up to a limit
 - The amount up to which the reinsurer is liable → limit/ cover/ security
 - Examples??
 - Premium??
 - amount or rate to be applied to the premium of 'protected portfolio', to reflect the loss expectancy transferred

METHODS OF REINSURANCE

- **Proportional Facultative**
 - Penempatan reasuransi utk individual risk
 - Biasanya bersifat *hazardous risk*
 - Optional untuk asuradur maupun reasuradur
 - terdapat proses *offer* dan *counter offer* (*full underwriting info as far as possible*)
 - Bisa dilakukan dengan metode proportional atau non proportional

METHODS OF REINSURANCE

▫ **Proportional Facultative – Advantages**

- additional capacity beyond auto capacity such as treaty
- proteksi treaty dari hasil underwriting yg kurang baik
- lesser concern about possible adverse results (the reinsurer has examined the risk)
- technical expertise from reinsurer

▫ **Proportional Facultative – Disadvantages**

- ketidakpastian akseptasi
- reasuradur mempengaruhi underwriting policy
- pekerjaan administrasi yg tinggi (new/ alteration/ renewal)

biaya administrasi yg tinggi

Karakteristik ini juga berlaku untuk Non Proportional Facultative

METHODS OF REINSURANCE

▫ **Non Proportional Facultative Reinsurance**

- Biasanya utk penempatan *large or complex risk* → metode ini lebih efektif dibandingkan prop fac re
- Original premium yg ditahan oleh *reinsured* lebih besar daripada prop fac re
- Reinsured has faith in the risk management practices of the insured
- Fac XL may be the answer if the reinsurer regards the primary premium as inadequate
- Fac XL enables the Reinsured to maintain confidentiality of his pricing of the original policies
- Reinsured saves the expenses involved in collecting small losses
- The disadvantage of this method is that the priority in in fact a **first loss limit**

RETROCESSION & SPIRAL

Further retrocession??

Retrocession

Business again
retroceded

Business further
retroceded

DISTRIBUTION ARRANGEMENTS

- **Direct**
- **Reinsurance Brokers**
- **Underwriting Agency**
- **Broker's Cover**
- **Line Slip**
- **Pools**

Thank you