ST. KITTS BRANCH
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Reinsurance
Managing Risk Transfer

IAIS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

The Insurance Core Principles (ICPs) were developed by the International Association of Insurance Supervisors (IAIS). The ICPs provide a globally accepted framework of principles, standards and guidance for the effective regulation and supervision of the Insurance Sector. ICP 13 speaks to REINSURANCE and outlines that Insurers (registered insurance companies) are expected to effectively manage their use of Reinsurance and other forms of Risk Transfer.

Reinsurance Defined

Reinsurance is the transfer of risk from an insurer to a reinsurer. Reinsurers provide financial protection to insurance companies. The interaction between the insurer and the reinsurer and the method by which the risk transfer is structured can affect the timing, effectiveness and stability of the insurer's financial results. Insurers are able to underwrite more insurance policies as risks are shared with Reinsurers.

Reinsurance is sometimes confused with Retrocession. While reinsurance is concerned with the transfer of risk from an insurer to a reinsurer, Retrocession involves the further transfer of risk by a reinsurer to another reinsurer.

Types of Reinsurance

There are two (2) main types of contractual arrangements between an insurer (also called a cedant) and a reinsurer.

1. Treaty:

In this arrangement, the insurer and reinsurer have a formal treaty or agreement in place for the cession of risks. The insurer is obliged to cede risks to the reinsurer and in turn the reinsurer is obligated to accept risks from the insurer consistent with the terms of the agreement.

2. Facultative:

With this arrangement, the insurer has the option to choose whether or not to offer an individual policy to the reinsurer and the reinsurer has the option to choose whether or not to accept the risk.

Reinsurance can be structured in one (1) of the following ways:

Proportional:
The insurer and reinsurer share both the premiums and claims in a predetermined proportional manner.

Non-Proportional:
The insurer retains the cost of claims up to a specified point and the reinsurer pays the excess.

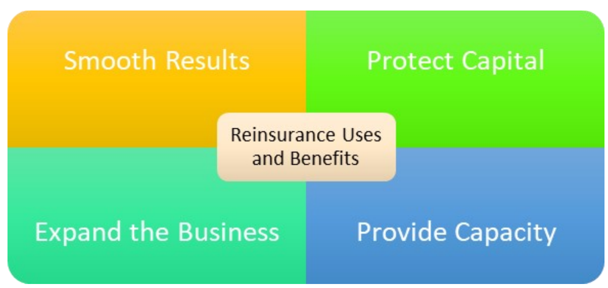
INSURANCE
RE-INSURANCE

Uses and Benefits of Reinsurance

RISK

Reinsurance is used to protect an insurer's capital against severe claims such as those involving catastrophic events. With a proper reinsurance program, an insurer can accept bigger individual risks than if it had to rely solely on its own financial resources. Reinsurance can be used as an alternative to additional capital, allowing an insurer to write larger volumes of individual risks.

Figure 1 below summarizes the benefits of Reinsurance.



Reinsurance Requirement

Pursuant to Section 177 of the St. Christopher and Nevis Insurance Act Cap 21.11, an insurance company registered to transact General Insurance business in St. Kitts and Nevis shall within fourteen (14) business days of the commencement of each underwriting year, submit to the Registrar of Insurance, the information regarding its Reinsurance Arrangements.

Failure to comply can result in, upon summary conviction, a fine not exceeding five thousand dollars ($5,000) or imprisonment for one (1) year or both.

https://www.fsrc.kn/law-library/insurance-businesses

Topics Discussed:

Retention Considerations of a Reinsurance Program

Insurers must consider the following features when reviewing their Reinsurance Program:

◊ Concentration Risk: Is the Company heavily exposed to a single risk or an event, for example: volcanic eruptions or hurricanes?

◊ Risk Appetite: It is important to properly identify and set the Company's risk appetite (how much risk is the Company willing to accept).

◊ Incentives: The cedant must retain an incentive to properly manage the business.

◊ Market Terms: Efforts should be made to seek alternative Costs and Terms of Reinsurance cover available.

◊ Claims Costs: This involves calculating or estimating the range of possible claims costs and probable maximum loss.

◊ Priority: This includes the interaction and priority of different Reinsurance arrangements.

Insurers must ensure that the Reinsurance Program chosen is appropriate to their business operations and forms part of their overall risk and capital management strategies.

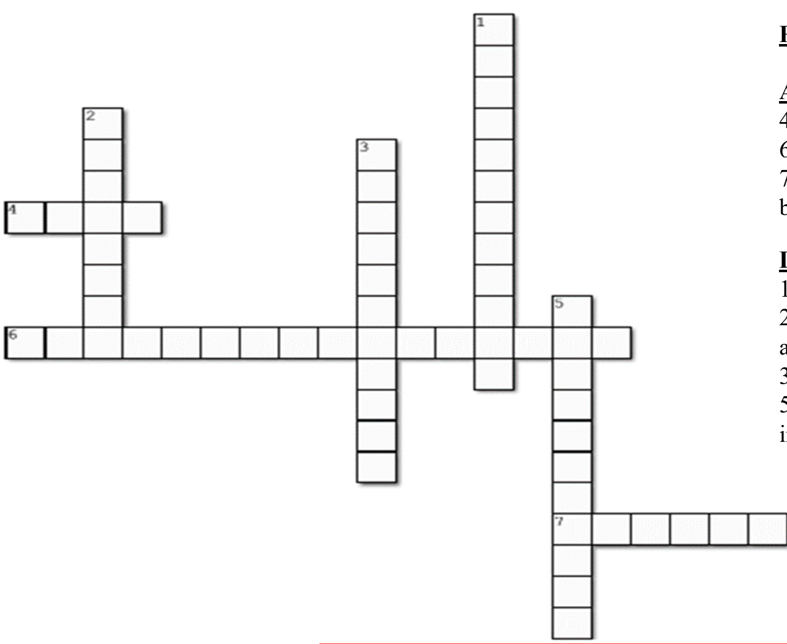
Internal Controls for Reinsurance

Insurers must establish effective internal controls over the implementation of their Reinsurance Program.

1. The Reinsurance program should form part of the ceding insurer's overall system of risk management and internal controls.
2. The insurer must first consider its appetite for ***Reinsurer Credit Risk.***
3. There should be documented procedures for identifying Reinsurers that meet the Company's requirements.
4. Always consider the terms and conditions of the Reinsurance contracts and the underlying policies with respect to termination clauses and limited reinstatements.
5. The insurer must ensure that there is appropriate criteria in place for the purchase of facultative coverage.
6. The insurer remains liable to fund all valid claims under contracts it has written, regardless of whether they are reinsured or not. A large claim or series of claims could give rise to cash flow difficulties if there are delays in collecting from Reinsurers.

Key Questions for Reinsurers

* Are the Reinsurers of a high quality (rating), secure and diverse?
* Are the internal controls for Reinsurance sufficiently and accurately implemented?
* Can the insurer maintain sufficient liquidity in a crisis?



REINSURANCE CROSSWORD PUZZLE

Across
4. C in ICP
6. another name for Excess of Loss reinsurance
7. type of reinsurance which is a formal arrangement between an insurer and a reinsurer

Down
1. the transfer of risk from a reinsurer to another reinsurer
2. time limit (days) for the submission of reinsurance arrangements
3. the transfer of risk from an insurer to a reinsurer
5. type of reinsurance where the insurer is free to offer an individual policy for reinsurance

REFERENCES

- https://www.fsrc.kn/law-library/insurance-businesses
- https://www.naic.org/cipr_topics/topic_insurance_core_principles.htm

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