UNDERSTANDING REINSURANCE

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Preview

This workshop will address theory and practice of reinsurance, and help participants to understand the following:

- Basics of Reinsurance, Proportional / Non Proportional.

Use and functions of:

- Proportional Treaties.
- Non proportional Treaties.
- Facultative Reinsurance
- Arranging combined Proportional / Non Proportional Treaties Program.

Part I Proportional Reinsurance

- Understanding and use of Risk profile
- Determining gross / net retention and required reinsurance treaty / facultative capacity
- Underwriting risk and cession to treaty Sum Insured / Probable Maximum Loss (PML) and facultative placements
- Understanding commission terms (Fixed / Sliding Scale) and Negative commission / loss participation clause
- Pricing of Treaties / Facultative Risks
- Preparation of treaty / facultative slips: Placement of Subscription and Non-subscription basis
- Preparation of statement of quarterly accounts / annual portfolio entry and withdrawal / profit commission
- Combined quota share / surplus treaties program
- Negotiating Treaty / Facultative reinsurance program

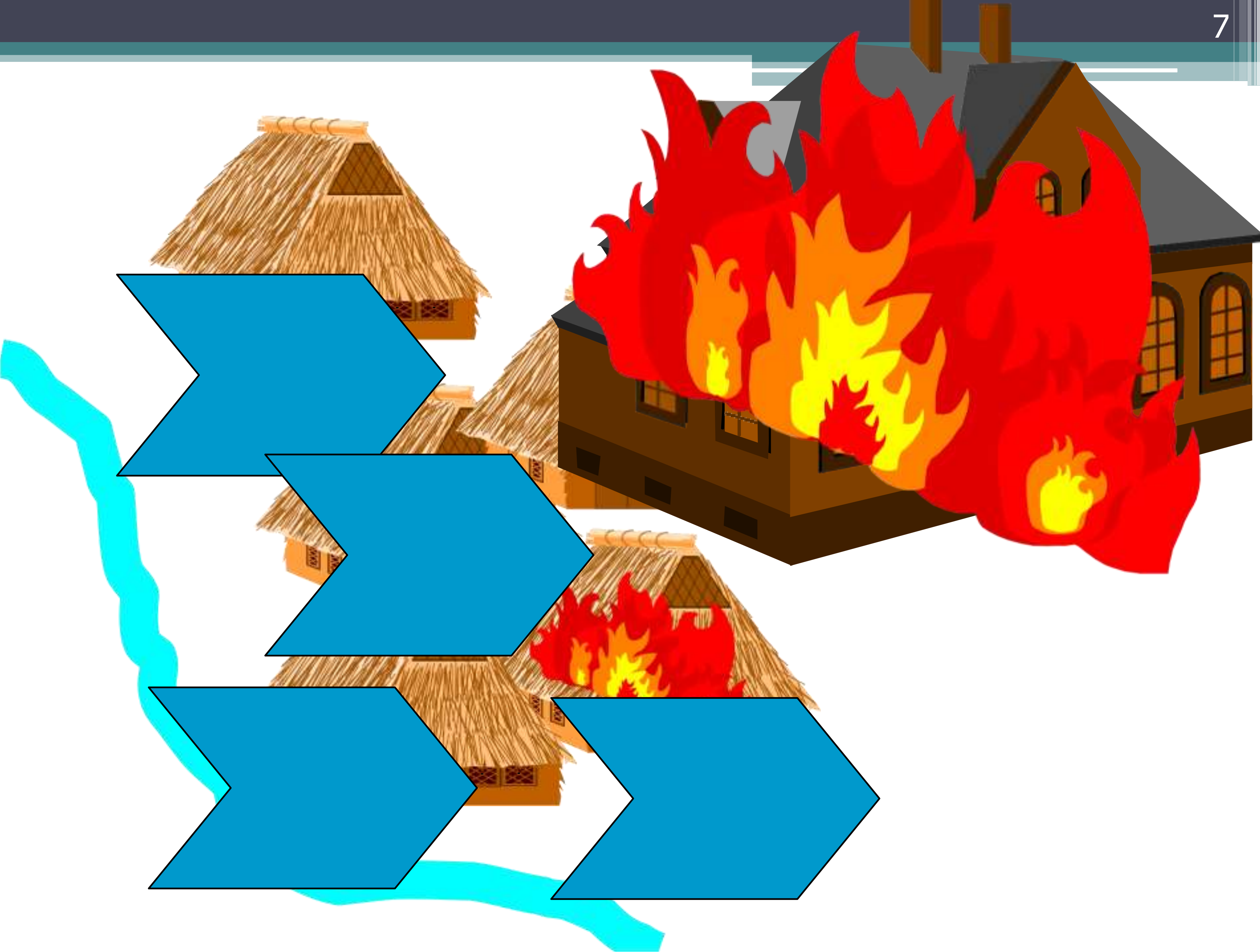
Part II Non- Proportional Reinsurance (Later Date)

- Understanding and use of Risk profile
- Determining gross / net retention
- Protecting risk /accumulation of risks and facultative placements
- Determining GNPI and pricing of non-proportional program on working layers / catastrophe layers (single risk / accumulation of risks)
- Preparation of XOL treaty slip and Placement of Subscription and Non-subscription basis
- Understanding reinstatement of capacity and calculation of reinstatement premium minimum deposit and final earned premium
- Negotiating XOL reinsurance program
- Arranging combined Proportional / Non Proportional Program.

Part I
Proportional Reinsurance

Insurance, Coinsurance, Reinsurance

- What is Insurance ?
  - It is a Risk transfer from an insured to an Insurance company.
- What is Co-insurance ?
  - It is risk sharing between two or more Insurance companies.
- What is Reinsurance ?
  - It is Insurance of Insurance or
  - Risk transfer from an insurance company to a reinsurance company.



Need for reinsurance

- There are large SINGLE RISK LOSSES
  - For example The BUSINESS HOUSE
- There are large CATASTROPHE LOSSES
  - For example The FLOOD LOSS
- Such occurrence/s can destabilise an insurance company financially or can also push it to insolvency.
- Reinsurance enables an insurance company to expand its capacity; stabilize its underwriting results; finance its expanding volume, and secure catastrophe protection against shock losses.

Functions of Reinsurance

- Provides Capacity.

  Through Proportional Treaties.

- Gives Protection

  Through Non Proportional Covers.

- Provides stability to results.

  Balancing good years with bad years.

ABC General Insurance Company Ltd

Fire Department

SI in PKR mlns

Risk Range		# of Risk	Total Sum Insured	Total Gross Premium	# of Claims	Probabilty Claim Ratio (%)	Total Gross Claims	Gross Claim Ratio (%)
		Risk Profile -2023			**Prm & claim in PKR thousands**			
0	100	104	3,700	950	52	50	320	34
100	200	60	11,200	4,140	45	75	2,490	60
200	300	115	28,244	12,990	48	42	6,700	52
		279			145	52%		
300	400	52	18,148	7,080	10	19	4,060	57
400	500	92	43,609	15,040	15	16	4,500	30
500	600	142	79,336	30,540	19	13	14,310	47
600	700	51	34,017	16,830	9	18	5,790	34
		337			53	16%		
700	800	63	49,392	19,070	28	44	5,780	30
800	900	45	37,710	15,830	4	9	1,780	11
900	1000	161	153,916	57,840	8	5	12,580	22
		269			40	22%		
		885	421,562	180,310	238	27%	58,310	32

Comments: Adequacy of Rates.

Computation:

Loss Experience Rate: Gross Losses / Total Sum Insured X 100

(Burning Cost) 58.31 million / 421,562 million X 100

=0.14%o.

0.14%o X 100 / 70=0.20%o.

(loading for acquisition cost, management expenses and margin of profit)

Computation:

Average Rate: Gross Premium / Total Sum Insured X 100

180.31 million / 421,562 million X 100 = 0.43%o.

The Burning Cost rate of 0.2%o is much lower to average rate charged 0.43%o.It is due to excellent loss ratio for the year under review.

However, similar exercise need to be carried out on last five years risk profiles to test adequacy of rates.

Comments: Structure of Portfolio, claims control and risk improvement.

Small Risks up to 300 million has probability of losses 52%
(# of losses145 / 279 X 100)

Medium Risks 301 plus to 700 million has probability of losses 16%
(# of losses 53 / 337 X 100)

Major Risks above 701 million has probability of losses 22%
(# of losses 40 / 269 X 100)

It is observed that **medium and large risks** are well maintained as the probability ratio of claims is relatively low as compared to **small risks.**

For small risks the ratio is very high and the company should find the reasons by addressing the following:

1. Insured's attitude for maintenance of risk.
2. Workers and management relations
3. Adequacy and maintenance of fire fighting equipme

Property Insurance
Cresta Report - 2023

Fire Risks

Pak Rs in millions.

Locations	No. of	Gross Sum	QST	Facultative	NET
ABBOTTABAD	1	129,023	323	128,378	323
D.G.KHAN	2	75	38	0	38
FAISALABAD	2	5,055	361	4,031	663
GWADAR	1	45	22	0	22
GUJRANWALA	1	27	14	0	14
HYDERABAD	23	2,738	125	2,488	125
ISLAMABAD	9	61,458	926	59,144	1,388
JAMSHORO	2	471	235	0	235
KARACHI	42	87,857	5,389	75,445	7,024
KHAIRPUR	1	173	87	0	87
LAHORE	17	3,998	1,684	315	1,999
MUZAFFAR GARH	2	331	166	0	166
MATIARI	1	213	106	0	106
MANSEHRA	1	199,503	249	199,004	249
NOORIABAD	1	134	67	0	67
PESHAWAR	1	2,802	392	1,821	588
PISHIN	1	0	0	0	0
QUETTA	2	106	53	0	53
RAWALPINDI	1	4,000	400	3,200	400
SHAHDAD KOT	2	1,050	525	0	525
SUKKUR	2	310,406	471	308,770	1,166
SUJAWAL	2	2,210	389	597	1,223
THATTA	2	13,990	245	13,500	245

Exposure Monitoring

- The Reinsures and Brokers have developed "Impact on Demand" an analytical tool to assist clients on following:
- Exposure monitoring and information
- Identifying exposure accumulations
- Individual risk mapping and underwriting
- Hazard mapping for underwriting and pricing

It is web based exposure management platform, could be accessed on internet.

TYPES OF REINSURANCE

- PROPORTIONAL
- NON PROPORTIONAL

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Methods of Reinsurance

PROPORTIONAL

- Facultative
  (single risk)
- Treaty
  (multiple risks)
  - Quota Share.
  - Surplus
  - Fac. / Obligatory.
  - Open Covers

NON PROPORTIONAL

- Facultative
  (single risk)
- Treaty (Contracts)
  (multiple risks)
  - Risk XOL.
  - Catastrophe XOL.
  - Stop Loss XOL

Proportional Reinsurance

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PROPORTIONAL / REINSURANCE

Proportional Reinsurance means that sums insured (= liability), premiums and losses are divided up between direct insurer & reinsurer according to respective share of the risk (i.e. Proportional)

- OPERATION / CESSION
- POLICY WRITTEN BASIS
- RISKS ATTACHMENT BASIS

OBLIGATORY REINSURANCE

Means treaty, automatic reinsurance of a whole portfolio and in most cases obligatory means obligatory for both sides, cedant and reinsurer.

EXAMPLE

- QUOTA SHARE TREATY

A Quota share treaty provides that the ceding insurer cedes and the reinsurer accepts a proportional interest in all the risks subject to a maximum rupees / dollars per risk limitation.

- QUOTA SHARE TREATY IS BEST SUITED FOR:

New ceding companies entering into a new class of business or a new area. This would be the best to get reinsurers to participate in portfolio with unknown experience and limited spread.

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Uses of a Quota Share Treaty

- Simple Form of reinsurance to operate and for administration and accounts.
- Works like a partnership.
- Useful for a new company or for a new class of business, where the results of business are unpredictable.
- Useful for reciprocal exchange.
- Useful for classes of business where it is difficult to define "a single risk" viz. Crop / Hail insurance.
- Also useful for long tail business: liability, Motor/TPL.

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Disadvantages of a Quota Share treaty

- Inflexible method of RI.
- Since a fixed percentage of premium on each and every risk is ceded, the outflow of Premium is huge.
- Fails to reduce incurred claims ratio on the retained account.
- Capacity offered is limited.

SURPLUS TREATY

- A surplus treaty is an agreement whereby the ceding company is bound to cede and the reinsurer is bound to accept the surplus liability over the ceding company's retention.

- In contrast to the quota share treaty, the surplus treaty is characterized by the fact that the reinsurer does not participate in all risks written by the direct insurer, but only in certain risks, namely those that exceed the direct company's retention.

- A surplus treaty thus allows the ceding company to reinsure under the treaty any part of the risk, for example, the surplus, which it is not retaining for its own account.

Comparison

Quota Share

- Cession is made on every risk
- There can not be 100% retention of the risk. (if the company has a QS treaty).
- If it is a Variable QS treaty & retention is reduced, the cession to the treaty is increased. (Table of retention)
- Basic commission is higher than the Surplus Treaty
- Most suitable method to give enough capacity for rapid growth in the formation stage of a Company.
- Can be arranged by way of fixed or VQS.

Surplus

- Cession is made on risks, which are surplus to the line of retention, (Fixed amount).
- Risks below the line of retention are retained for 100%. (if the company has no QS treaty).
- If, depending on the hazard of the risk, if retention (line) is reduced, the cession is also reduced.(Table of retention)
- Basic commission is lower than the QS treaty.
- Most suitable method to give required capacity in grown up stage of Company.
- Can be arranged in a series of Surplus Treaties, FSP, SSP, TSP. Etc.

PROPORTIONAL REINSURANCE

DETERMINATION OF COMPANY'S RETENTION

EXERCISE - I

RULE

Maximum retention per risk should be around 1.0% to 5.0% of total Net Premium Income of cedent's portfolio.

COMPANY NET PREMIUM
INCOME OF FIRE PORTFOLIO

Figures Rs. In Mlns

YEAR	NET PREMIUM (100%)
2019	1100
2020	1190
2021	1280
2022	1390
2023	1540

For 2024 recommended range of retention on EPI 1650 mln. as per above calculation :

(a) Minimum scale 1.0% of net premium Rs. 1650 Mln.
i.e. Rs. 1650 Mln. X 1.0% = 16.5 Mln.

(b) Maximum scale 5.0% of net premium Rs. 1650 Mln
i.e. Rs. 1650 Mln. X 5.0% = 82.5 Mln.

- ***<u>EXERCISE - II</u>***

As per other Reinsurance experts.

"Maximum Retention per risk and per loss should not be more than 2.5% - 10% capital and free reserves".

Company's Capital	(2023)	Rs. 600.00 Mln
Free Reserves	(2023)	Rs. 300.00 Mln
Total Net Assets	(2023)	Rs. 900.00 Mln

2.5% of Rs. 900.00 Mln = Rs. 22.5 Mln

10% of Rs. 900.00 Mln = Rs. 90.00 Mln

SUMMARY

Rs. Min

- EXERCISE I BASED ON NET PREMIUM 16.50 / 82.50
- EXERCISE II BASED ON NET ASSETS OF 22.50 / 90.00
- Retention could be placed anywhere between the above

  However, it may be influenced by the following:

- Underwriting performance of business portfolio.
- Balance of portfolio i.e. Homogenous exposure and good spread of risks.

Retention

- No Reinsurance without Retention.
- Retention will be per risk.
- On SI / PML basis.
- Minimum PML % may be specified.
- Flat or Top and Graded down basis. Table of limit should be attached.

CAPACITY OF TREATY

- QUOTA SHARE
- SPECIFIED LIMIT (say) **Rs. 1000 million**
- REINSURED RETENTION 10% Rs. 100 million
- REINSURER'S LIMIT 90% Rs. 900 million
- **TOTAL** **100%** **Rs. 1000 million**
- EPI RS. 50 million
- PREMIUM EXPOSURE RATIO = PREMIUM / REINSURERS LIABILITY

500 MLN / 1000 MLN

01 / 02

NOTE:

REINSURERS LOOK FAVOURABLE WHERE PREMIUM EXPOSURE RATIO IS BALANCED IN THIS CASE IT IS VERY HEALTHY.

TECHNICALLY THEY CALL IT AS BALANCING OF TREATY.

CESSION TO TREATY

Example:

Risk with a sum insured of Rs. 100 million
Premium Rs. 2 million
Loss of Rs. 10 million

	Without Reinsurance		With 90% Quota Share	
	Direct Ins.	R / I	Direct Ins.	R / I
Sum Insured	100 Mln.	-	10 Mln.	90 Mln.
Premium	2 Mln.	-	0.2 Mln.	1.8 Mln.
Loss	10 Mln.	-	01 Mln.	09 Mln.

CAPACITY OF TREATY

- SURPLUS TREATY
- SPECIFIED LIMIT (say) Rs. 100 million
- REINSURED RETENTION – (one line) Rs. 10 million
- REINSURER'S LIMIT – (Nine lines) Rs. 90 million
- EPI RS. 30 million
- PREMIUM EXPOSURE RATIO = PREMIUM / REINSURERS LIABILITY

30 MLN / 90 MLN

01 / 03

NOTE:

REINSURERS LOOK FAVOURABLE WHERE PREMIUM EXPOSURE RATIO IS BALANCED. IN THIS CASE IT IS AVERAGE (Satisfactory).

TECHNICALLY THEY CALL IT AS BALANCING OF TREATY

SURPLUS

EXAMPLE:

Direct Insurer's retention		10,000,000
Surplus of 09 lines	= treaty capacity	90,000,000
(underwriting capacity	= 100,000,000)	

Direct insurer writes a risk for sum insured of	80,000,000
at premium rate of 1%	800,000

	Retention (Direct Insurer)	**1st Surplus (Re-insurer)**
Liability	10,000,000 (12.5%)	70,000,000 (87.5%)
Premium	100,000	700,000
Total Loss	10,000,000	70,000,000
Partial Loss (20,000,000)	2,500,000	17,500,000

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PML (Probable Maximum Loss)

- Determines the loss potential to the insurer on any one risk.
- The amount of reinsurance the insurer must buy
  - Influence on Net Premium Written
  - Influence on Insurers cost
- Criteria for evaluating / balancing portfolios

Single Risk – First class construction

- If distance between two buildings (open space) is of 15 meters.
- No opposite openings.
- Other building has external walls of brick, stones or concrete and roof with slates, tiles, concrete or cement sheeting.

OR

- The two adjacent buildings are separated by perfect party wall.
- Wall made up of bricks, stones or concrete of at least 21 cm, thickness and extending 37 cm above the roof of both sides.
- Entirely without opening.
- Roof must be of concrete

Practical Exercise – Risk cession

Treaty Program (Rs.)
Quota Share: Max. Limit 2 mln. SI / PML - min.50%.
Retention 50%. Reinsurers 50%

1st Surplus: 4 lines. Limit 8 mln. SI / PML - min.50%.
2nd Surplus: 4 lines. Limit 8 mln. SI / PML - min.50%.

Example 1
- Risk Sum Insured 25 million
- PML 60%
- Premium 1.0 million
- Claim 10.0 million

Example 2
- Risk Sum Insured 50 million
- PML 40%
- Premium 3.0 million
- Claim 15.0 million

Solution – Example 1

- Sum Insured 25 mln (Figures in Rupees)
- PML @ 60% of 25mln = 15 mln

Cession(Rs. Mln.)		PML	Premium	Claims
Retention	6.5%	1.0	0.065	0.65
Q. Share	6.5%	1.0	0.065	0.65
Total	**13%**	**2.0**	**0.130**	**1.30**
1 surp.	53%	8.0	0.530	5.30
2 surp.	34%	5.0	0.340	3.40
Total	**100%**	**15.0**	**1.000**	**10.00**

Solution – Example 2

- Sum insured 50 mln. (Figures in Rs.)
- PML is assessed at 40% of 50 mln = 20 mln
- Cession is allowed to treaties at min PML 50%. Therefore cession to be done only on min PML amount of 25 mln.

Cession(Rs. Mln.)		PML	Premium	Claims
Retention	4%	1.0	0.12	0.60
Q. Share	4%	1.0	0.12	0.60
SubTotal	**8%**	**2.0**	**0.24**	**1.20**
1 surp.	32%	8.0	0.96	4.80
2 surp.	32%	8.0	0.96	4.80
SubTotal	**72%**	**18.0***	**2.16**	**10.80 (SI = 36mln)**
Fact.	28%	7.0*	0.84	4.20 * Usually placed on sum insured basis. SI= 14mln.
Total	100%	25.0	3.00	15.00

Commission

- An agreed fixed % of Premium, or on sliding scale depending upon loss ratio, paid by the Reinsurer to the Reinsured.
- Consideration to meet actual net acquisition cost, excluding salaries of staff.
- Influencing factors:

1. Type of Treaty.
2. Class of business.
3. Country.
4. Results.

- Uniform to all participants.
- May differ for reciprocity.

Sliding scale of commission.

Rate of commission 25%	if the loss ratio is	65%	or more
Rate of commission 26%	if the loss ratio is	63%	but less than 65%
Rate of commission 27%	if the loss ratio is	61%	but less than 63%
Rate of commission 28%	if the loss ratio is	59%	but less than 61%
Rate of commission 29%	if the loss ratio is	57%	but less than 59%
Rate of commission 30%	if the loss ratio is	55%	but less than 57%
Rate of commission 31%	if the loss ratio is	53%	but less than 55%
Rate of commission 32%	if the loss ratio is	51%	but less than 53%
Rate of commission 33%	if the loss ratio is	49%	but less than 51%
Rate of commission 34%	if the loss ratio is	47%	but less than 49%
Rate of commission 35%	if the loss ratio is	45%	but less than 47%
Rate of commission 36%	if the loss ratio is	less than 45%	

Loss participation clause

"If the loss ratio of this treaty in any calendar year exceed 100% the reinsured shall bear 20% of the amount which loss ratio exceeds 100%. "

- Incurred losses / earned premiums = loss ratio%
- PKR 100 million/PKR 80 million = 125%
- 25% of earned premium 80 million = 20 million
- Reinsured will bear 20% of 20 million =4 million.

- (This is also known as negative commission clause)

Important Ratios

Rs. In mlns.

Claim Ratio: Claims / Premiums X100= %

450 / 1,000 X 100= 45%

Expense Ratio: Com.+Adm.Exp/ Premiums X 100= %

250 / 1,000 X 100=25%

Combined Ratio: Claims Ratio + Expense Ratio

70% 45% + 25%

Treaty Pricing Calculation

• Ceded reinsurance premium		**100%**
• Margin of basic losses	- 35%	
• Margin for extraordinary losses	- 15%	
• Margin of Catastrophe losses	- 10%	
Total losses	**60%**	
Fluctuation loading	2%	
Admin cost loading	5%	
Technically justified commission	33%	**100%**

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Proportional Reinsurance Treaty Slip

- Ceding Co. (ABC Insurance Ltd. Karachi)
- Type of Treaty: (QS/Surplus etc.)
- Period: continuous contract subject to 3 months PNOC on 31/12 any year
- Scope of business: Fire and allied perils written by Reinsured.
- Exclusions: As original or as listed here.
- Territorial Scope: Pakistan
- Retention: 20% Q. Sh. Rs. 100mln., Or Surplus Rs. 10 mln SI / PML min. 50%.
- 100% Treaty Limit: 80% Q Sh Rs. 100 mln SI / PML min 50%
- No. of Lines: 9 Surplus.
- Commission: Flat rate or on sliding scale
- Profit Commission: 25% (7.5% Reinsurer's expenses. Losses C/F till extinction)
- Accounts: Quarterly
- Portfolios Entry/withdrawal: Premium 35%, & O/S Losses 90%.
- Cash Loss Limit: Rs. 20 mln. for 100% loss to treaty.
- EPI: Rs.50 mln Q Sh. Surplus Rs. 40 mln
- Brokerage: 2.5%
- Statistics /Information regarding the portfolio: As seen by Reinsurer, 30 November 2023.
- Leader: XY Reinsurer 25%
- Reinsurer Share : Following reinsurer's share.
- Termination of Treaty: Clean cut basis / Run off basis

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FACULTATIVE REINSURANCE

In facultative form, a reinsurance transaction carries the discretionary characteristic, which is similar to that of direct insurance.

For ceding company or reinsurer there is no such obligation either to cede or to accept business, respectively. The ceding company provides necessary information about the risk to be ceded and the reinsurer on the other end has the option whether to accept or to refuse the risk offered. Similarly, the cedent (i.e direct insurer) has the freedom to cede a risk or to keep it for his own account.

Uses / Advantages of Facultative Reinsurance

- In case of a small portfolio, where Treaty method is unattractive to reinsurers.
- Where risk is outside the scope of the Treaty - e.g. excluded class or outside the Geographic Scope of the Treaty.
- Where Sum Insured exceeds the Treaty Limit.
- Expertise and capacity of big reinsurance can be used.
- Where the nature of risk is hazardous and may have potentially destabilising effect to the Treaty.
- Where the Company wishes to increase its gross acceptance capacity in order to retain or acquire lead role on Co-insurance.
- Where the Company wishes to increase its Net Account by offering business exchange for inward facultative reinsurance.
- Where requirement of insurance is for peculiar and short period risks such as Exhibitions

DISADVANTAGES

- Full disclosure of the material facts.
- Delay in seeking support.
- High administrative costs in negotiation and administration.
- Lower rates of commission.
- No Profit Commission.
- Risk of overlooking the renewal placement.
- Negotiation procedure to be adopted at each renewal.
- Insurer cannot commit to his insured until and unless the reinsurers' acceptance pertaining to the amount in excess of his retention and the obligatory capacity of his treaties, has been received.

Procedure for Facultative Placement

- To approach Reinsurers or Broker, with the placing slip.
- Reinsurers may accept, reject, accept conditionally or ask for more information.
- On acceptance, Reinsurers sign & return a copy of slip to the Ceding Company or the Broker.
- Signed lines and closings to be followed by settlement of premium.
- Endorsements may follow.
- Claims advises if any.
- Again individual considerations at renewal. PNOC is not normally given.

Facultative Reinsurance Slip

- Name of Cedant.
- Name of Assured. (full details such as location, occupancy, age, neighbours etc. Risk survey report)
- Perils Covered.
- Period of Cover.
- Sum insured (break-up) & Rates / deductibles.
- Deductions (commission, taxes, charges.)
- Brokerage.
- Past experience.
- Cedant’s net retention/ gross retention.

A TYPICAL EXAMPLE OF PAKISTAN MARKET

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Class of business : Fire, extended to include riot & strike, malicious act explosion & Acts of God (natural perils)

Name of ceding company : ABC Insurance Company Limited

Name of original insured : Sugar factory limited

: Building, Machinery & Stock Rs.1, 500,000,000

: Rs. 2,000,000,000

Loss of Profits Rs. 500,000,000

Location : Jhang, Punjab

Period : 12 months at 01.01.2018

Rate : Building, Machinery & Stock : 2 per cent

: Loss of Profits : 1.25 per cent

Commission : 15 per cent

Retention of Ceding Company : 10 per cent

Cessions to existing Treaties : 50 per cent (including compulsory surplus Pakistan Reinsurance Limited)

Percentage to be reinsured : 40 per cent

This slip is circulated amongst the prospective reinsurers, who, if wish to participate, will initial the slip by writing down their share against their respective names, following "Closing Particulars") giving brief details of the risk accepted by the reinsurer. Normally, "Closings" along with accounts are prepared by the cedent on a monthly or quarterly basis covering all the transactions between him and his reinsurer during that period, and are sent to the reinsurer along with the payments (premium less commission).

Circulation of Facultative Risk in Local market

FACULTATIVE REINSURANCE UNDER RULE 7 OF THE INSURANCE RULES, SECTION 41(5) OF THE INSURANCE ORDINANCE, 2000

- For the purposes of the facultative reinsurance under Rule 7 of the Insurance Rules, 2002 / amended in 2017, (hereinafter referred as the “Rule 7”) read with Section 41(5) of the Insurance Ordinance, 2000 (hereinafter referred as the “Ordinance”), the Securities and Exchange Commission of Pakistan (hereinafter referred as the “Commission”) is hereby issuing this Circular for the necessary guidance of the insurers, including takaful operators, for compliance of the regulatory framework and maintenance of transparency in the reinsurance placements.

In the matter of facultative reinsurance placements as required under Rule 7, it is hereby mentioned that the current regulatory framework does not recognize any requirements for an insurer registered under the Ordinance to maintain the credit or financial strength rating issued by any local or foreign rating agency. Hence, the practice of imposing any such requirement by an insurer on the reinsurer accepting the local placement of facultative reinsurance shall be construed as *ultra vires*.

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FACULTATIVE REINSURANCE UNDER RULE 7 OF THE INSURANCE RULES, SECTION 41(5) OF THE INSURANCE ORDINANCE, 2000

An insurer shall circulate the entire risk (100%), which is in excess to its net retention and cession to the treaty, in the local market first for utilizing the available reinsurance capacity and thereafter approach the Commission to seek the permission for foreign facultative reinsurance placement after completing the procedural requirements as prescribed under Rule 7. Unless the permission is granted by the Commission in writing, no placement of risk shall be made with the foreign reinsurer(s).

The non-compliance and any failure on part of an insurer to comply with the above provisions of this Circular shall be liable to be penalized under section 156 of the Ordinance.

FACULTATIVE REQUEST NOTE

(Risk Acceptance/ Decline Slip as specified under Circular 22/2013)

Note: As laid down in Rule 7(3) of the Insurance Rules, 2002, no insurer shall accept reinsurance on facultative basis in excess of its net retention, if the insurer seeking such reinsurance so indicates in the reinsurance slip/ request note in writing. The list of insurance companies given in this form is indicative and names can be added as required.

Annexure I

General Information					
Date (dd-mm-yyyy)		Request Note No.			
Ceding Insurer's Name		Policy No.			
Name of Insured		Period from		Period to	
Type		Property Covered			

Reinsurance Arrangements					
	%age	Amount		%age	Amount
A. Sum Insured	100%		B. Company Share		
C. Company Net Retention			D. Treaty Share of local insurer(s)		
E. Treaty Share of PRCL			F. Treaty Share of foreign reinsurer(s)		
G. Leftover share of which is being offered as facultative G = B-(C+D+E+F)					

Other Information					
	%age	Amount		%age	Amount
Reinsurance Rate being offered			Deductible(s)		
Commission			Maximum Probable Loss (if applicable)		
Loss History (if any)					
Other Information (if any)					

S.No.	Name of insurers/ reinsurer	Signature and Stamp indicating Acceptance (with terms & condition)/ Decline (with reason(s))
1	Ace Insurance Limited	
2	Adamjee Insurance Company Limited	
3	Alfalah Insurance Company Limited	

Annexure 1

FACULTATIVE PERMISSION UNDER RULE 7 OF INSURANCE RULE 2002
STANDARD FORM

1) Company's Name

2) Name of Insured

3) Occupation of the Insured

4) Class of Insurance

5) Period of Insurance

6) Date of Application to SECP for NOC

7) Coinsurance if any

	All in PKR			
	Sum Insured	Premium Amount		
8) Sum Insured (100%)				
9) Cedant Company's Share	100.00%	-		
10) Net & XOL Treaty	-	-		
11) Underwriting Capacity	-	-		
12) Ceded to Treaty	-	-		
13) Fac Acceptance by PRCL	-	-		
14) Fac Acceptance by Local Market	-	-		
15) Name of Broker				
	-	-		
	-	-		
	-	-		
	-	-		
16) Foreign Reinsurance Company			% Share	Credit Rati
	-	-		
	-	-		
	-	-		
	-	-		
17) Facultative Sum Insured Amount	-	-		
18) Facultative Net Premium Amount to be Remitted abroad				

A.M. Best		Fitch		Moody's		Standard & Poor's	
SECURE		SECURE		STRONG		SECURE	
A++,A++	Superior	AAA	Exceptionally strong	Aaa	Exceptional	AAA	Extremely strong
A, A-	Excellent	AA	Very strong	Aa	Excellent	AA	Very strong
B++, B+	Very good	A	Strong	A	Good	A	Strong
		BBB	Good	Baa	Adequate	BBB	Good
VULNERABLE		VULNERABLE		WEAK		VULNERABLE	
B, B-	Fair	BB	Moderately weak	Ba	Questionable	BB	Marginal
C++,C+	Marginal	B	Weak	B	Poor	B	Weak
C, C-	Weak	CCC,CC,C	Very weak	Caa	Very poor	CCC	Very weak
D	Poor	DDD,DD,D	Distressed	Ca	Extremely poor	CC	Extremely weak
E	Under regulatory supervision			C	Lowest	R	Regulatory action
F	In liquidation						
S	Rating suspended						
Within-category modifiers		+,-		1,2,3 (1 high, 3 low)		+,-	


PII
Pakistan Insurance Institute
Thank you!