M97 LEARNING OUTCOME 3

3 QUESTIONS

CHAPTER 3 – FEATURES AND OPERATION OF FACULTATIVE REINSURANCE

MAIN FEATURES OF FACULTATIVE REINSURANCE

- ✓ 'As original'
- ✓ 'Back to back'

OTHER TERMS

- ✓ Common account: the reinsured buys facultative excess of loss reinsurance for its own protection and its proportional treaty reinsurers
- ✓ Estimated maximum loss (EML) : Important in determining the premium and deciding how much of the risk to accept and retain

FACULTATIVE PROPORTIONAL REINSURANCE

- ✓ 'Permits the insurer to pass on a fixed, or quota, share of the liability it has accepted on a particular risk by ceding a share to one or more reinsurers.'

FACULTATIVE EXCESS OF LOSS REINSURANCE

- ✓ Additional capacity is required to handle risk exceeding treaty limits
- ✓ No automatic cover is in existence for the particular class of business concerned
- ✓ The insurer does not want to expose its treaties to a certain risk
- ✓ Certain risks are specifically excluded by the treaty reinsurers

FACULTATIVE NON-PROPORTIONAL REINSURANCE

- ✓ 'The reinsured retains a fixed monetary amount of a particular risk and arranges excess of loss protection with the reinsurer to pay any claim amount exceeding that fixed monetary retention up to a further defined monetary amount.'