



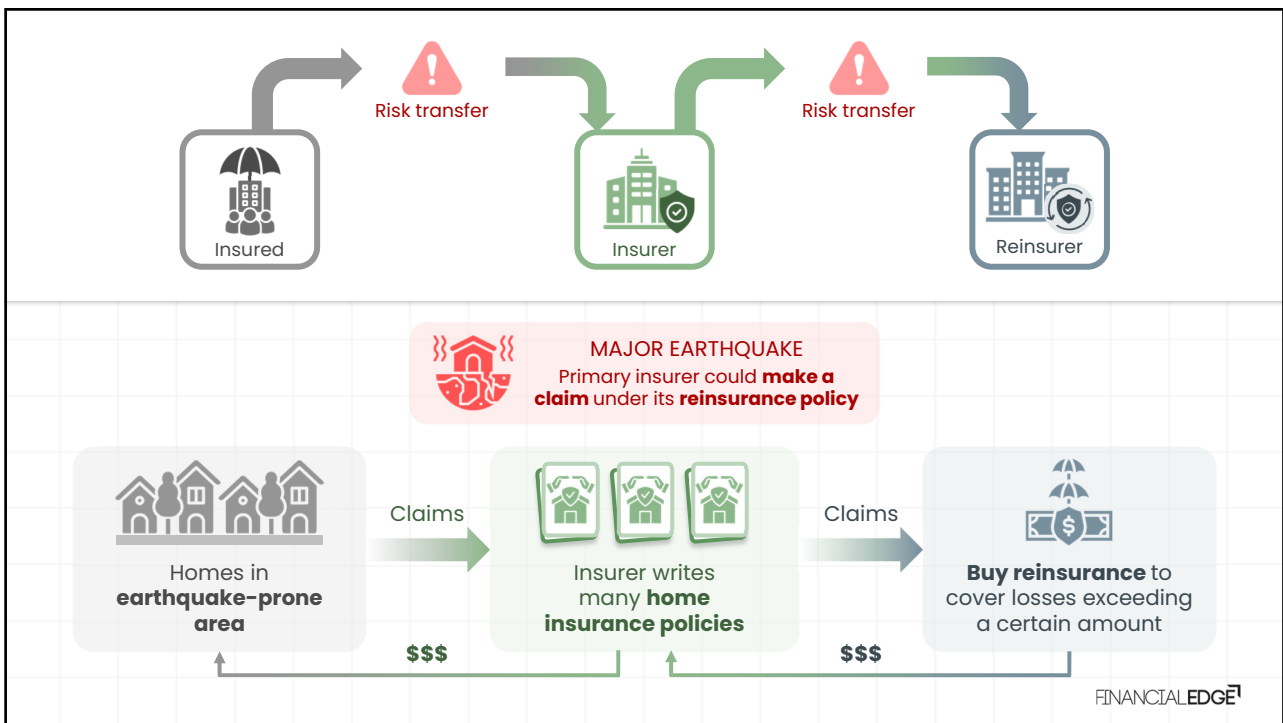
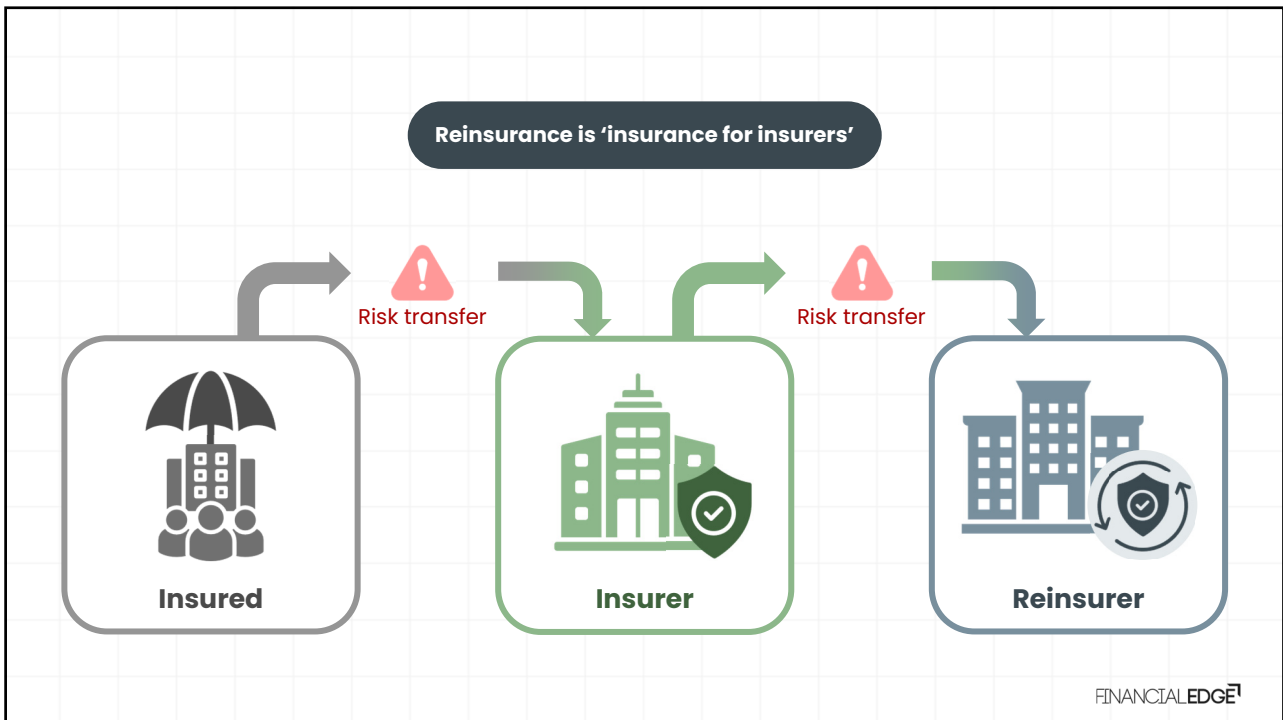
Introduction to Reinsurance

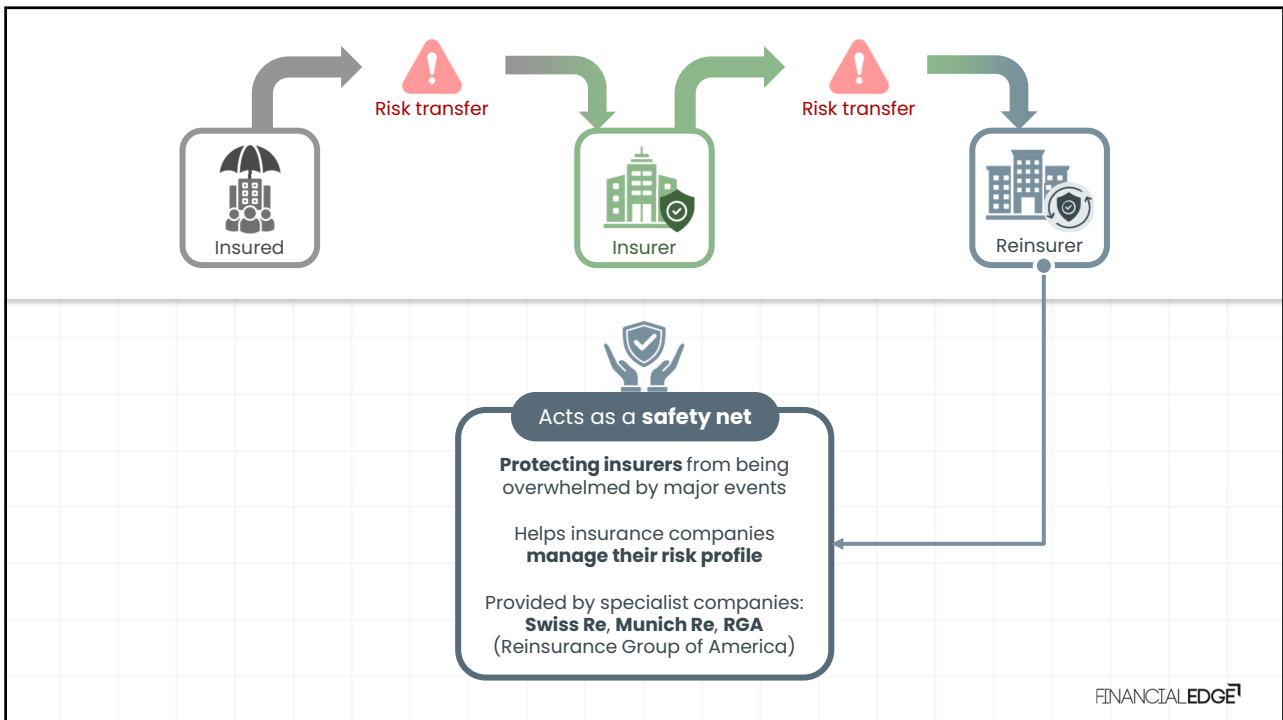


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What is Reinsurance?

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Purposes of Reinsurance

Why do insurance companies take out reinsurance?



Risk Transfer



Capacity Expansion



Loss Stabilization



Catastrophe Protection



Risk Transfer



Helps insurers **manage their exposure** to large, catastrophic losses

The insurer can remain **financially stable**

Capacity Expansion



Reduces their exposure to risk taken on from their primary insurance business

Regulators view the insurer as less risky – **lowering regulatory capital requirements**

The insurer can **gain new business** and **underwrite more insurance policies**

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Loss Stabilization



Smooths underwriting results

In good years, the **cost dampens down profits**

In bad years, claims from primary policies are **offset by reinsurance recoveries**

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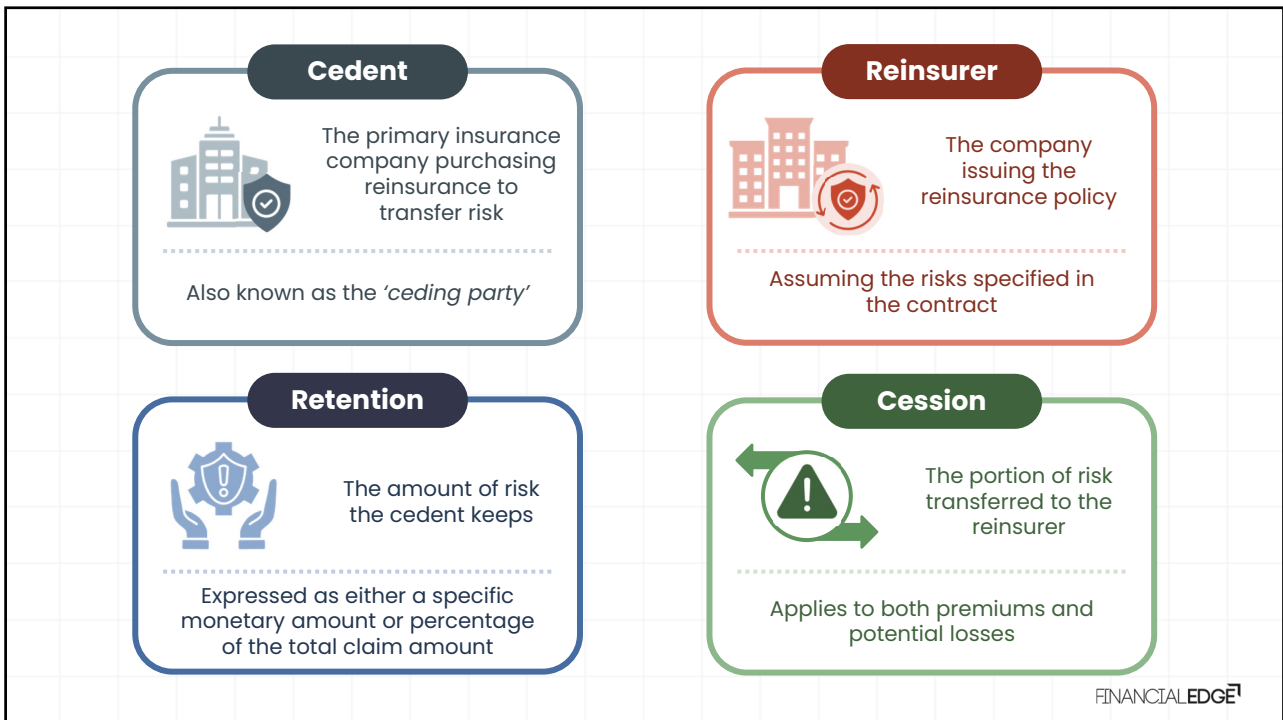
Catastrophe Protection



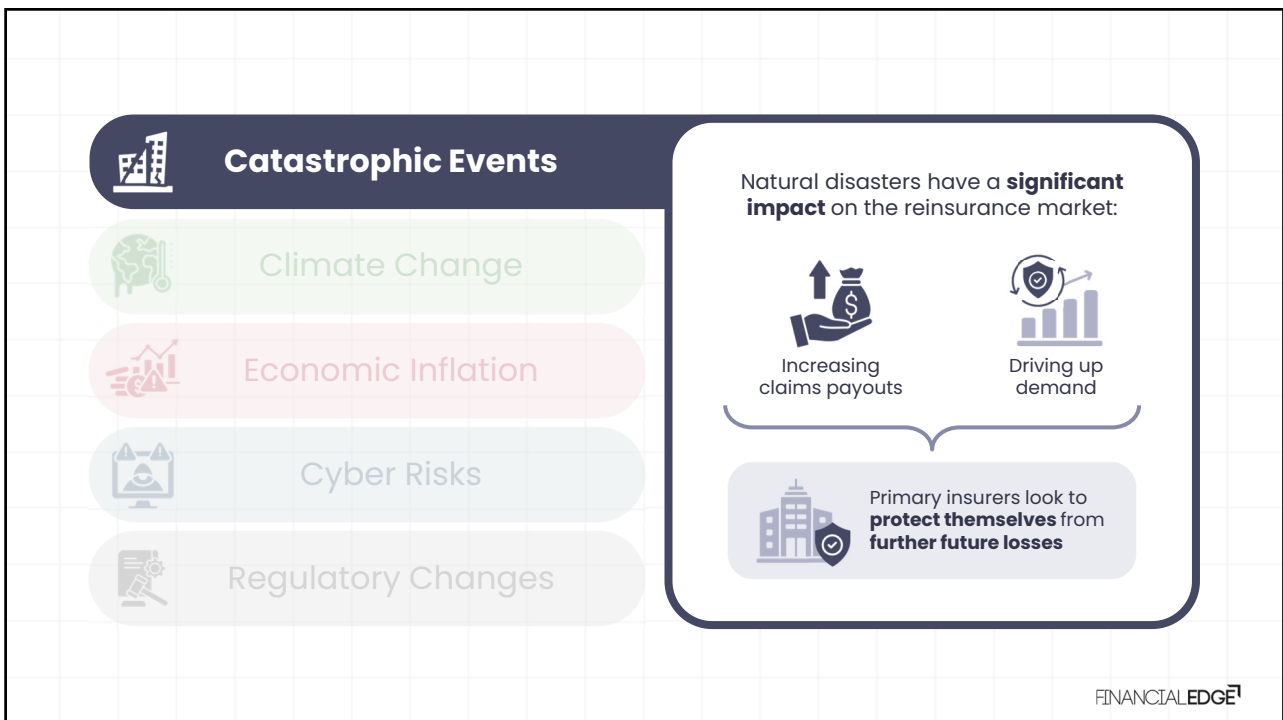
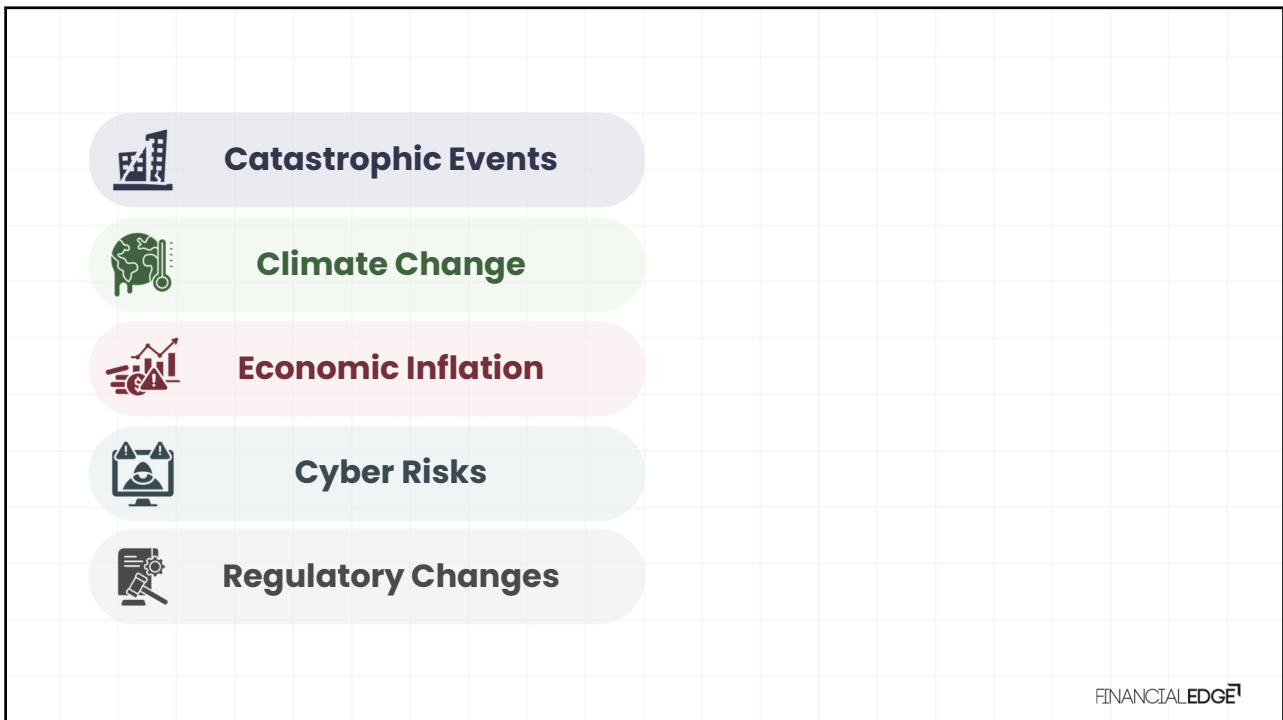
In **extreme events**, insurers may face **very high claims levels**

Reduces insolvency risk – reinsurance covers a proportion of the claims

Key Terms in Reinsurance




Factors Influencing Reinsurance Market




Catastrophic Events

- Climate Change
- Economic Inflation
- Cyber Risks
- Regulatory Changes

Natural disasters have a **significant impact** on the reinsurance market:



In 2023
Global insured losses from natural catastrophes exceeded **\$100 billion**

 Significantly **boosted reinsurance premiums** during 2024


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Catastrophic Events


Climate Change

- Economic Inflation
- Cyber Risks
- Regulatory Changes

The **increasing frequency and severity** of extreme weather events is:

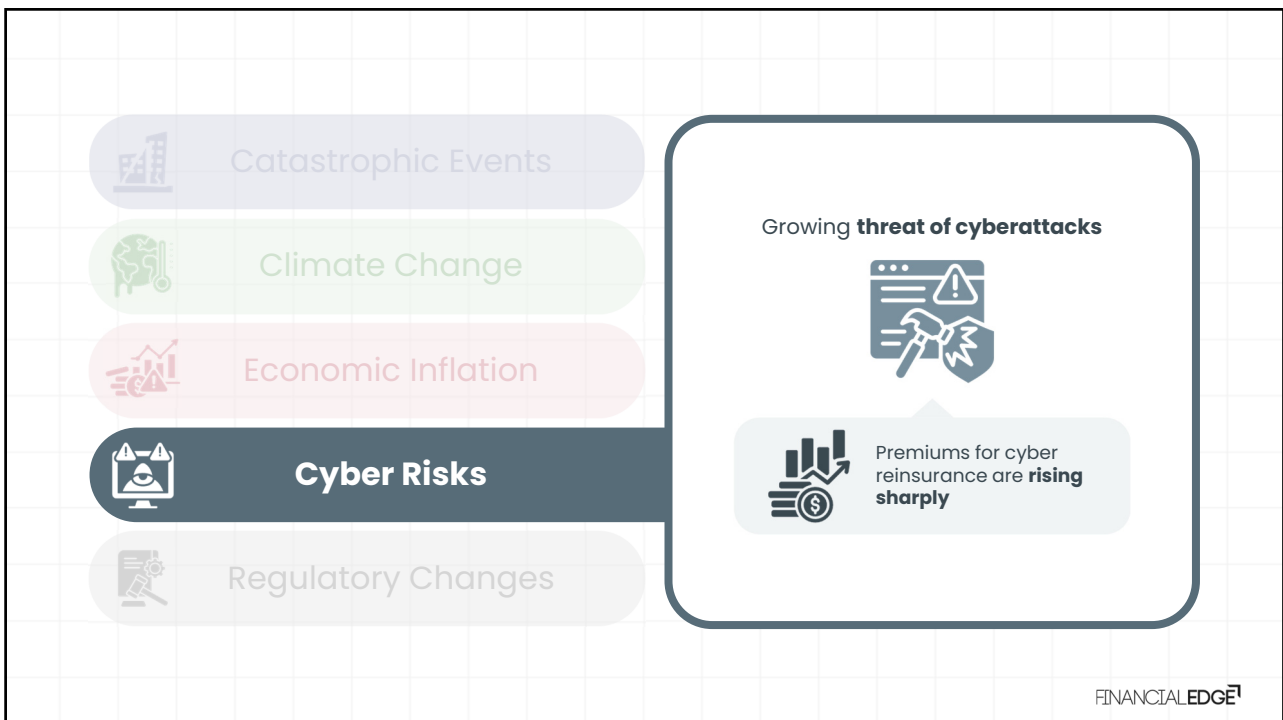
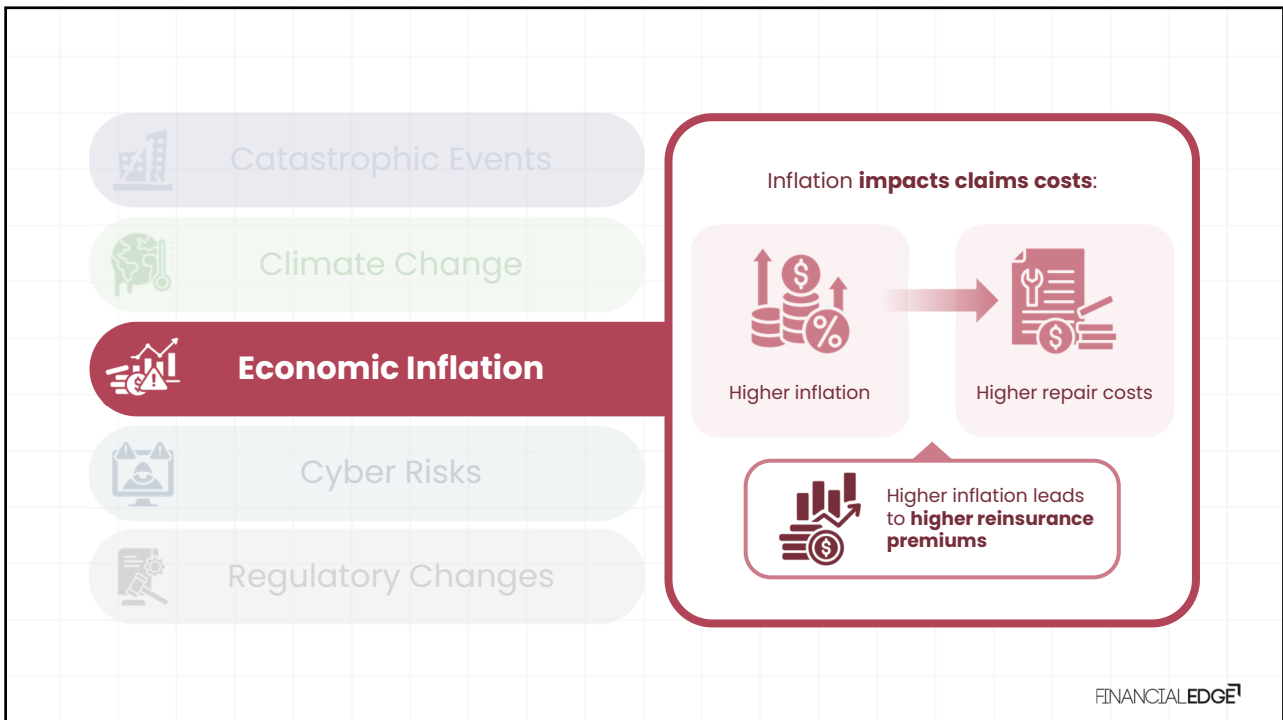


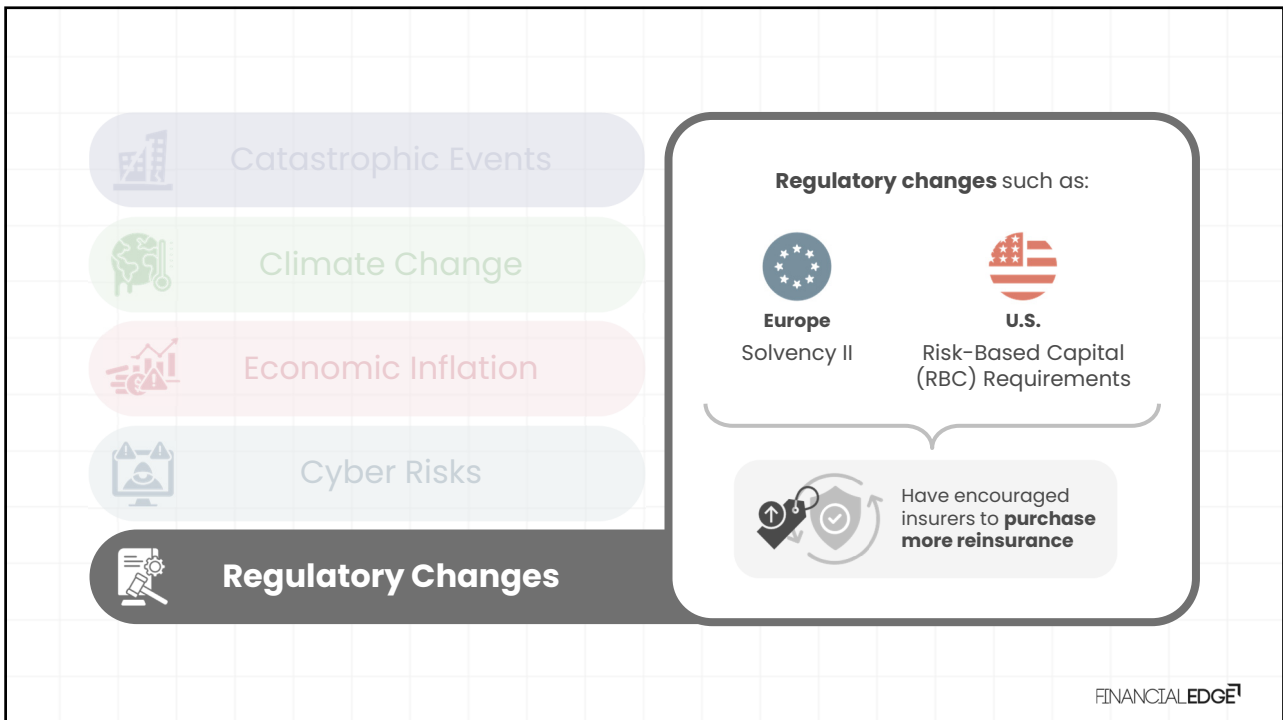
Reshaping **risk models**



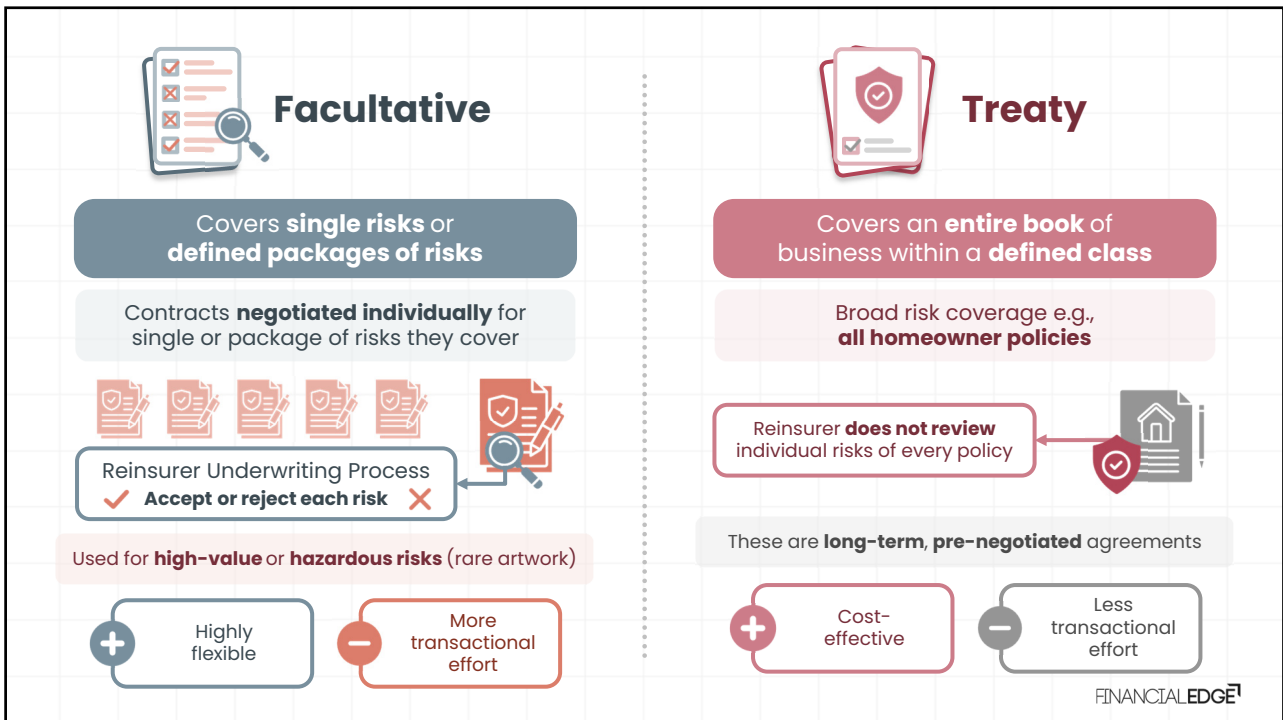
Increasing demand for catastrophe reinsurance

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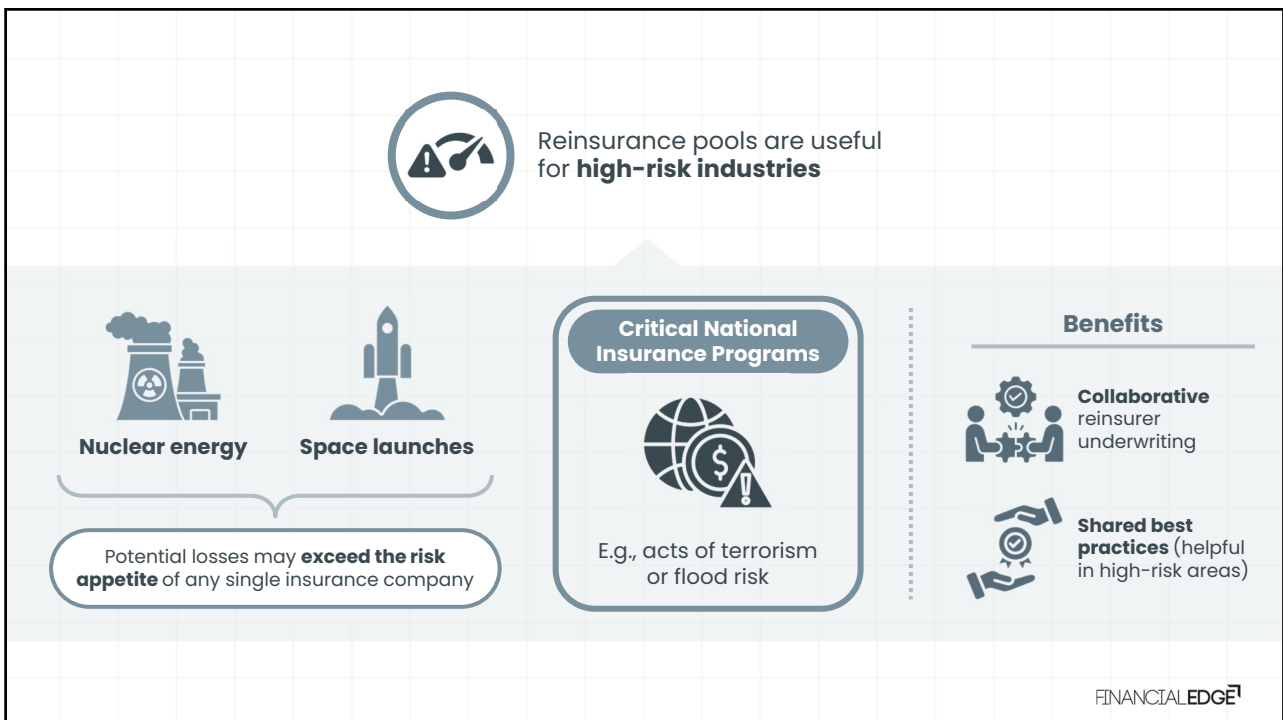
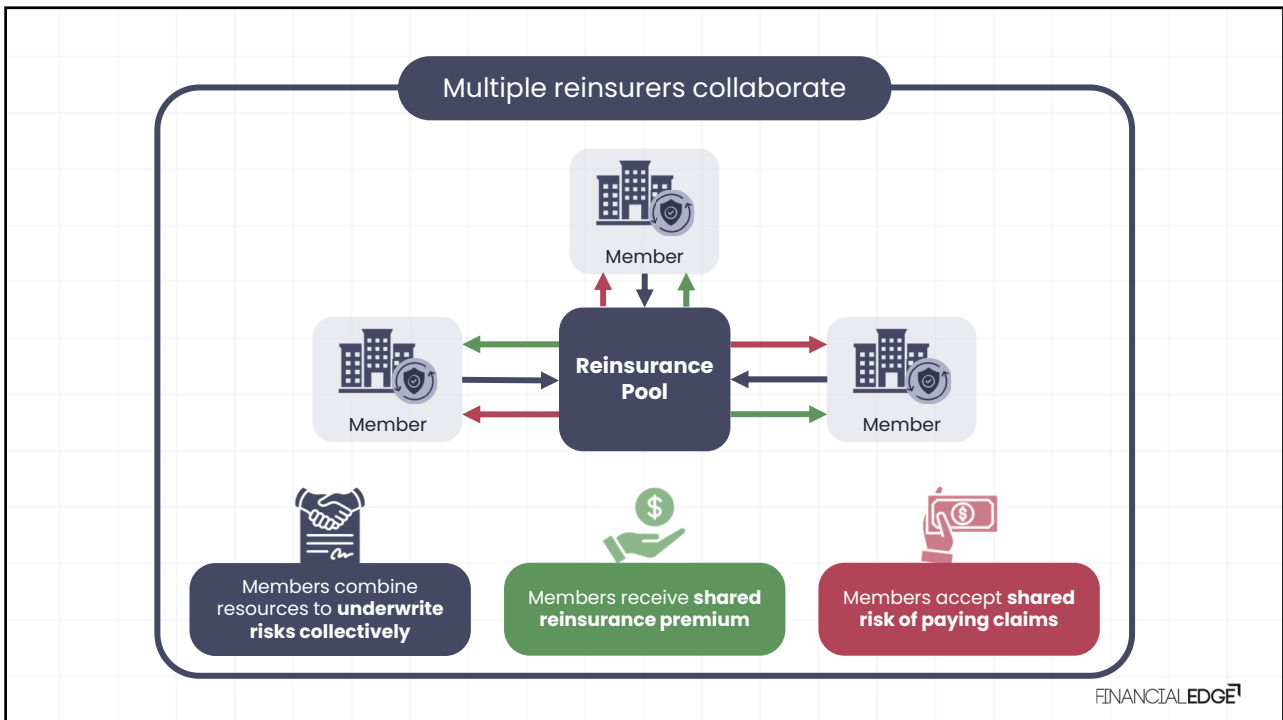


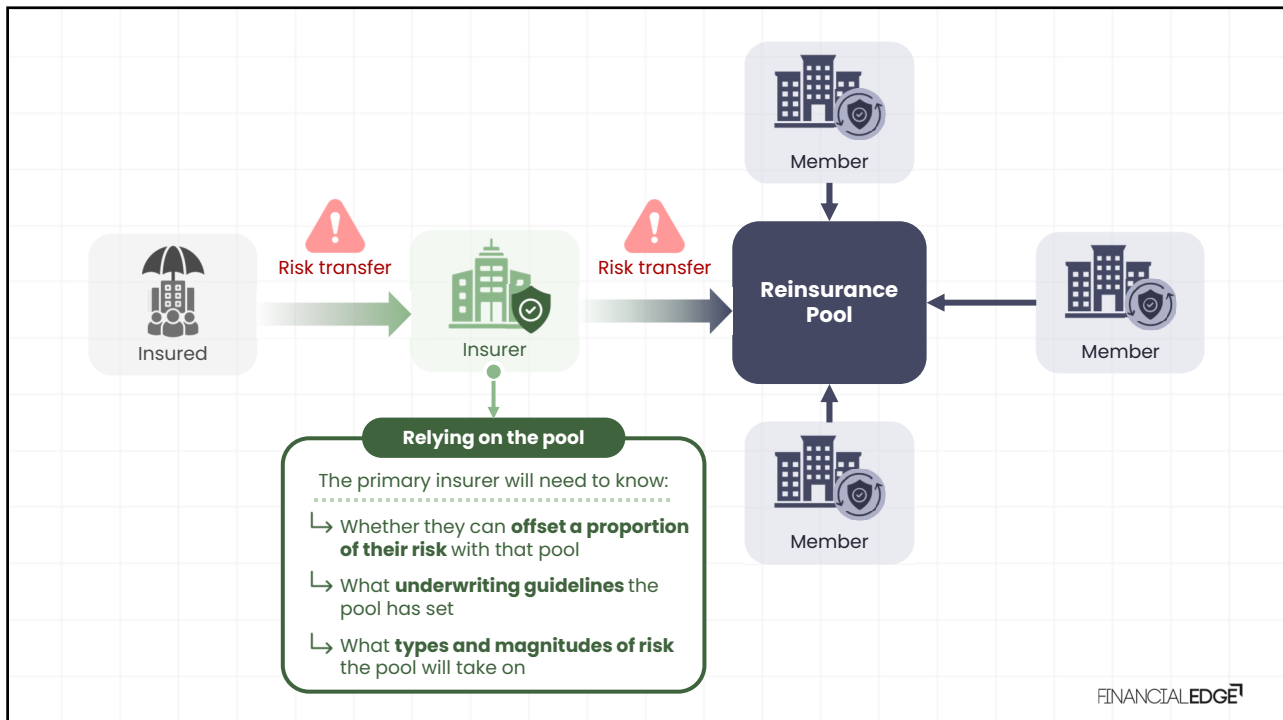


Facultative vs. Treaty Reinsurance

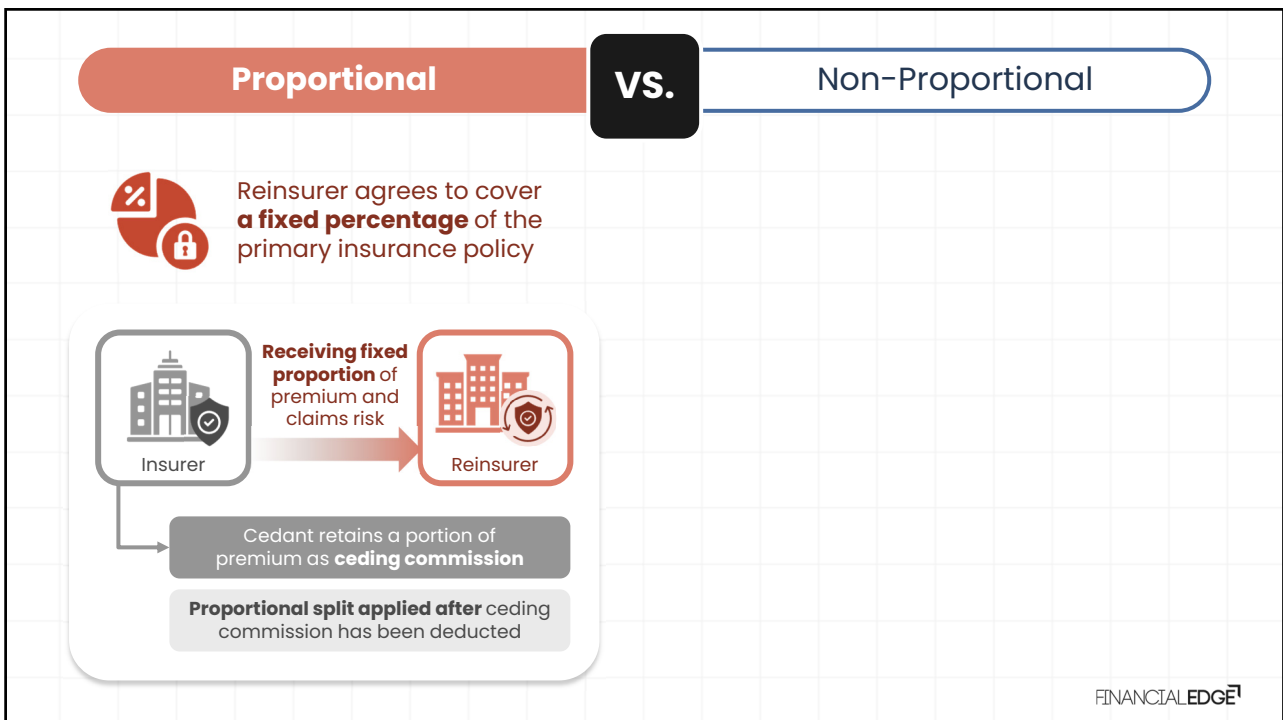
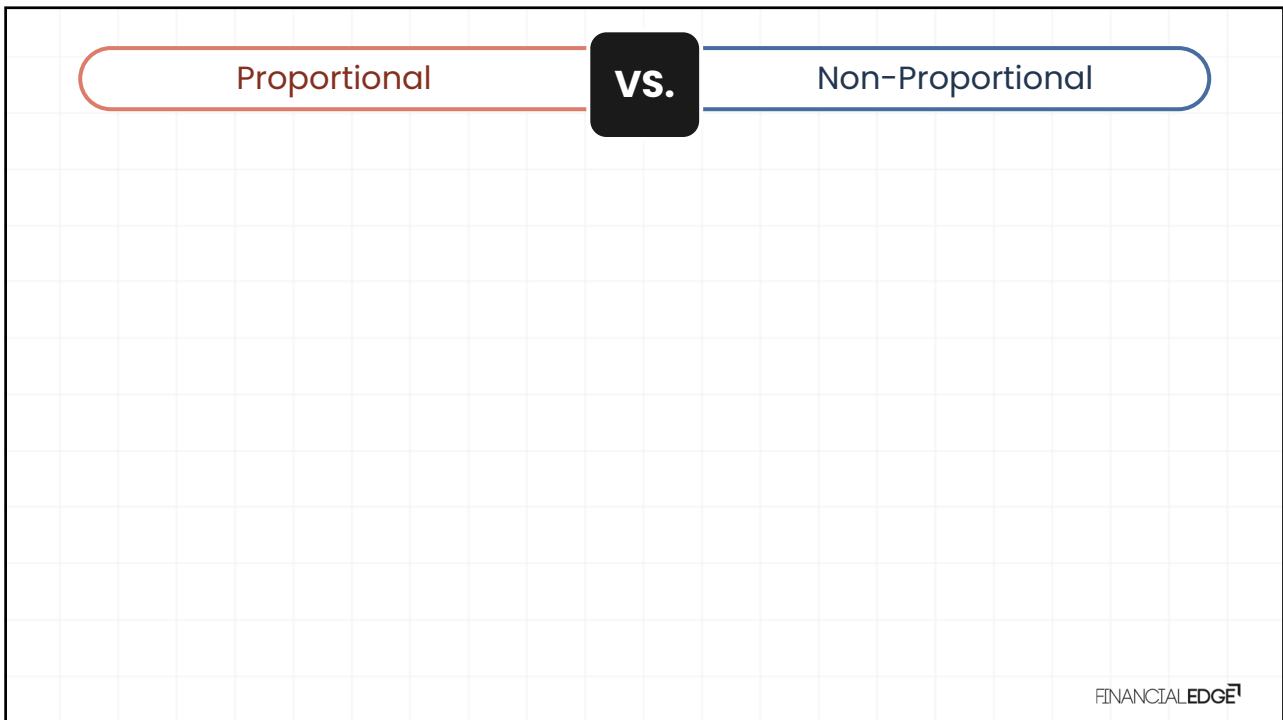


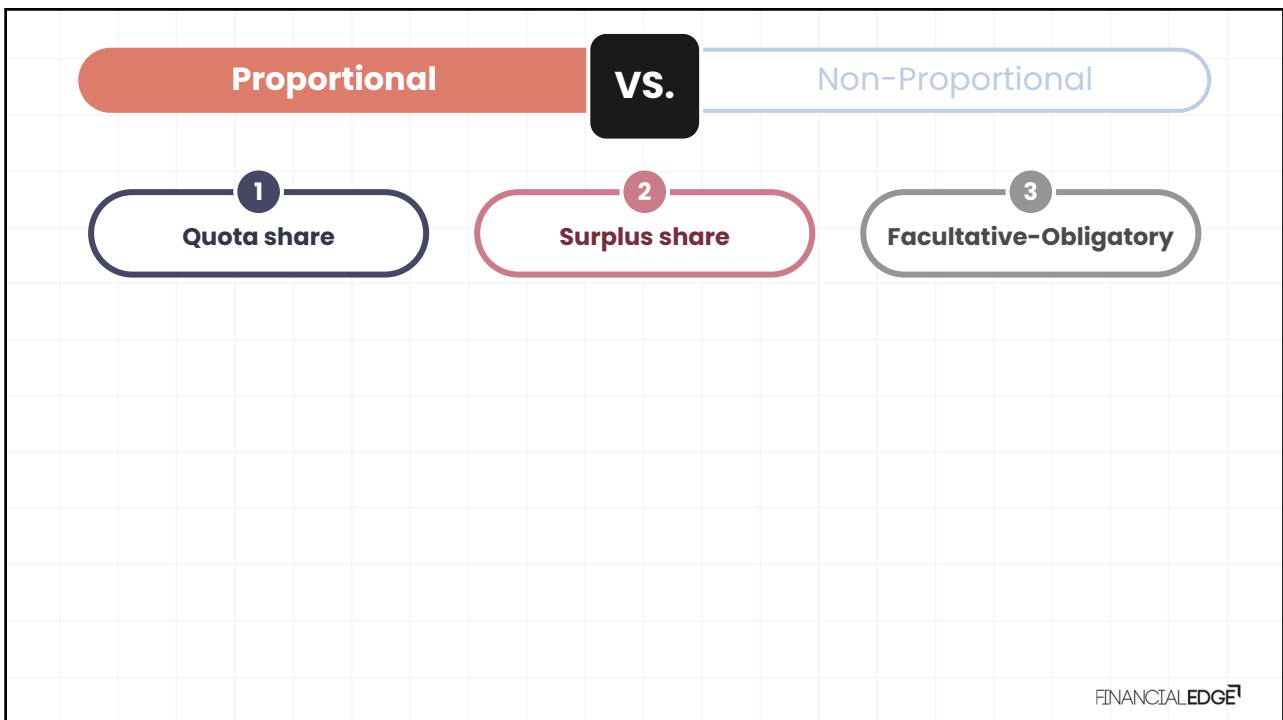
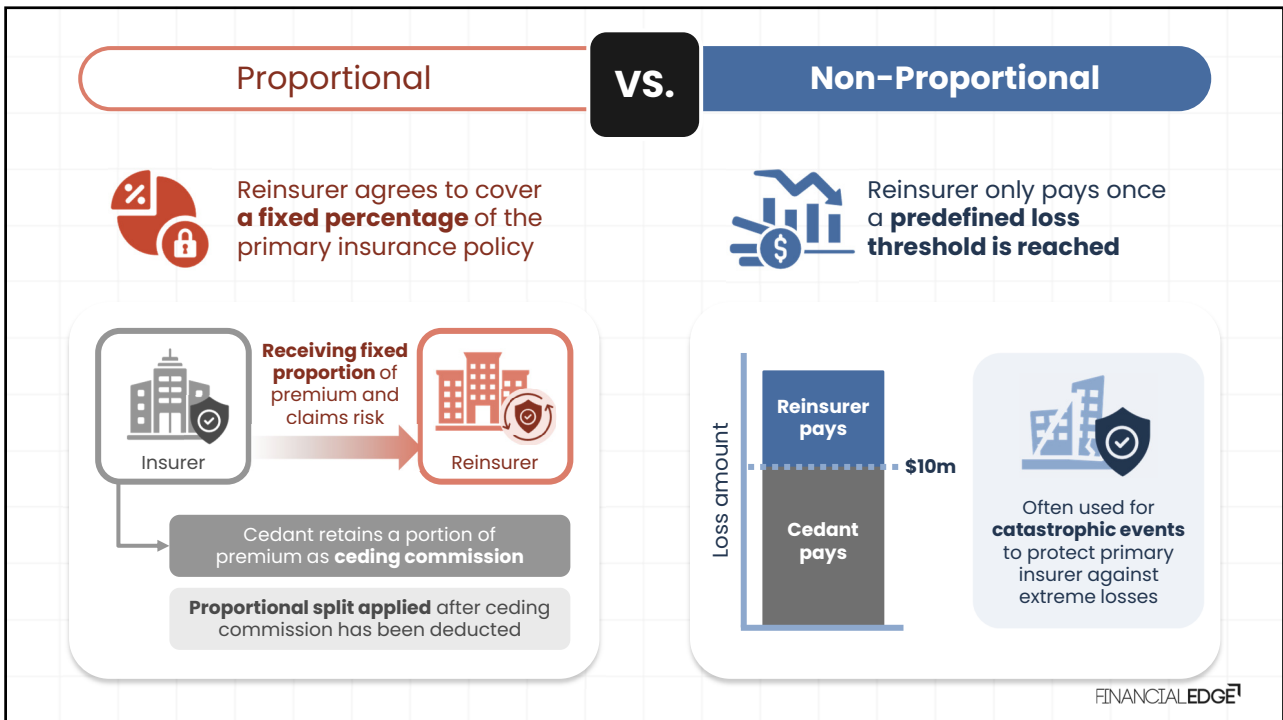
Reinsurance Pools

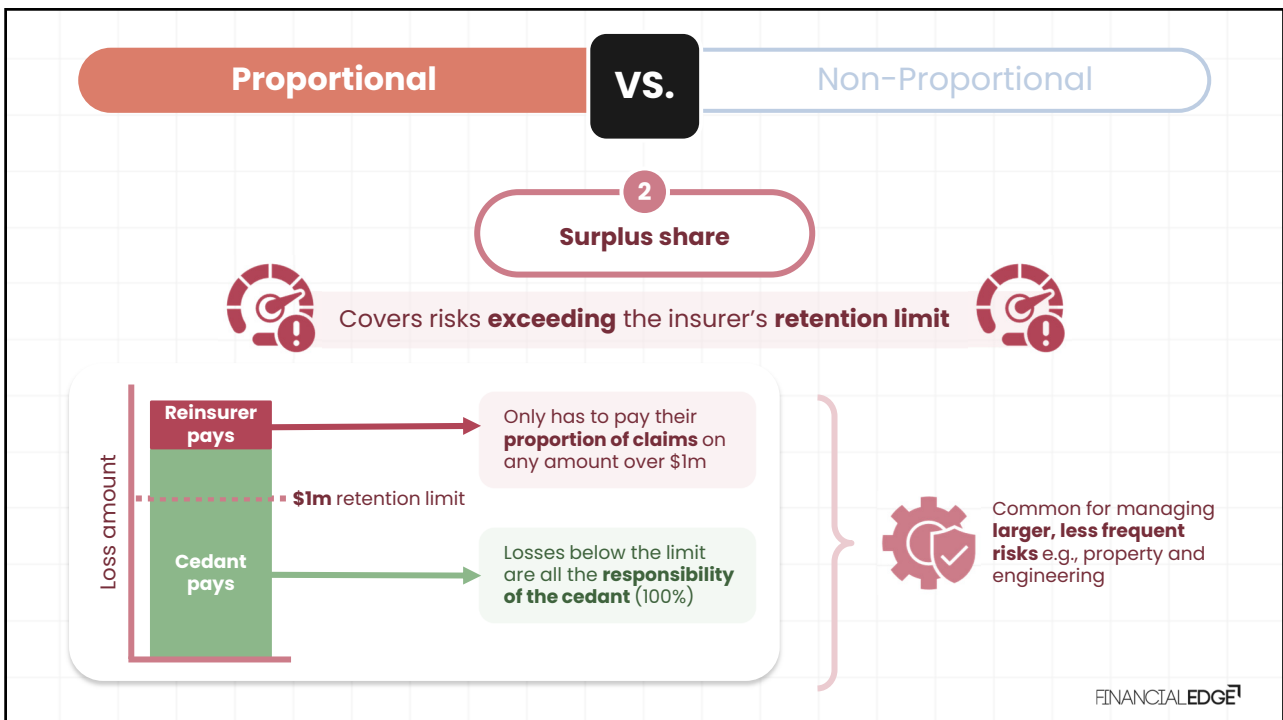
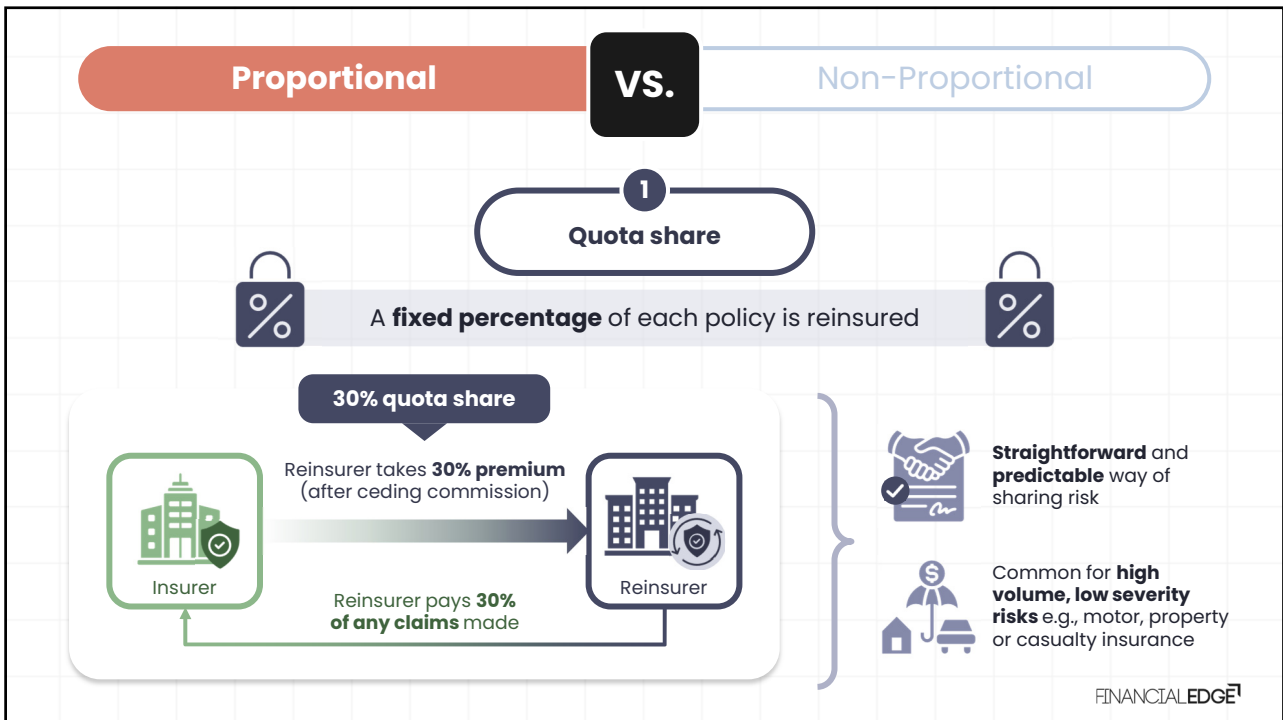


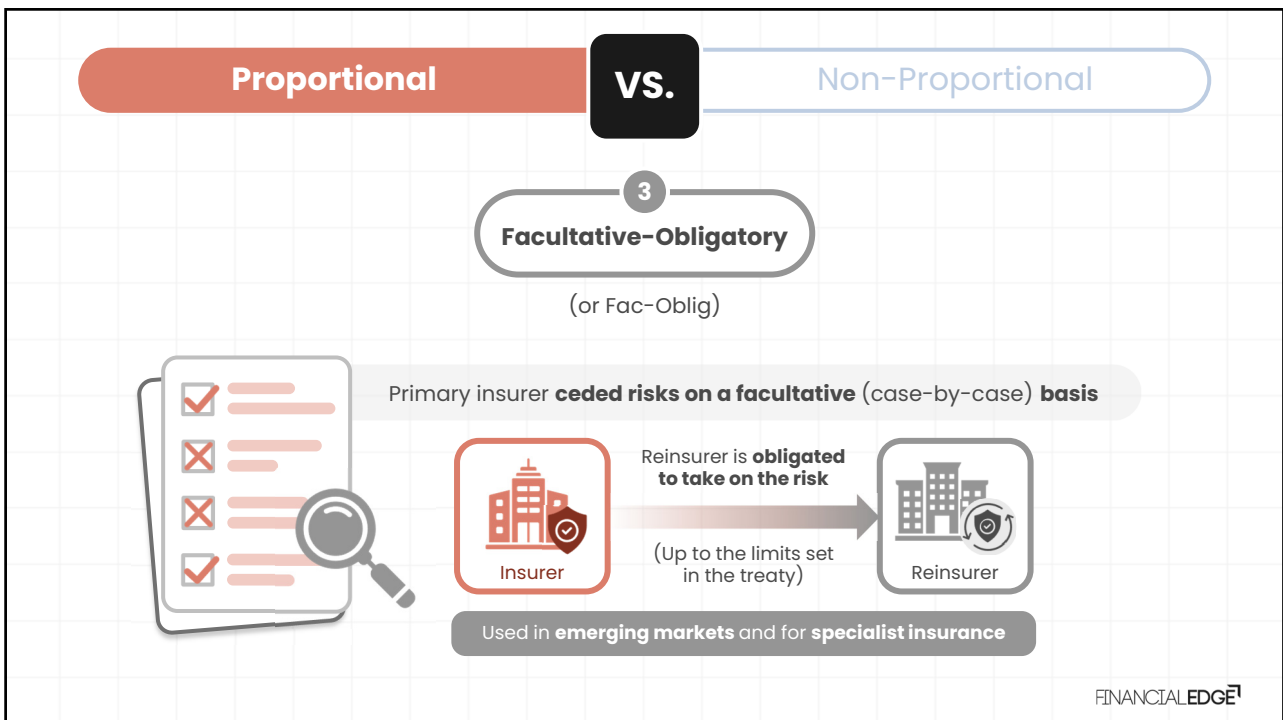
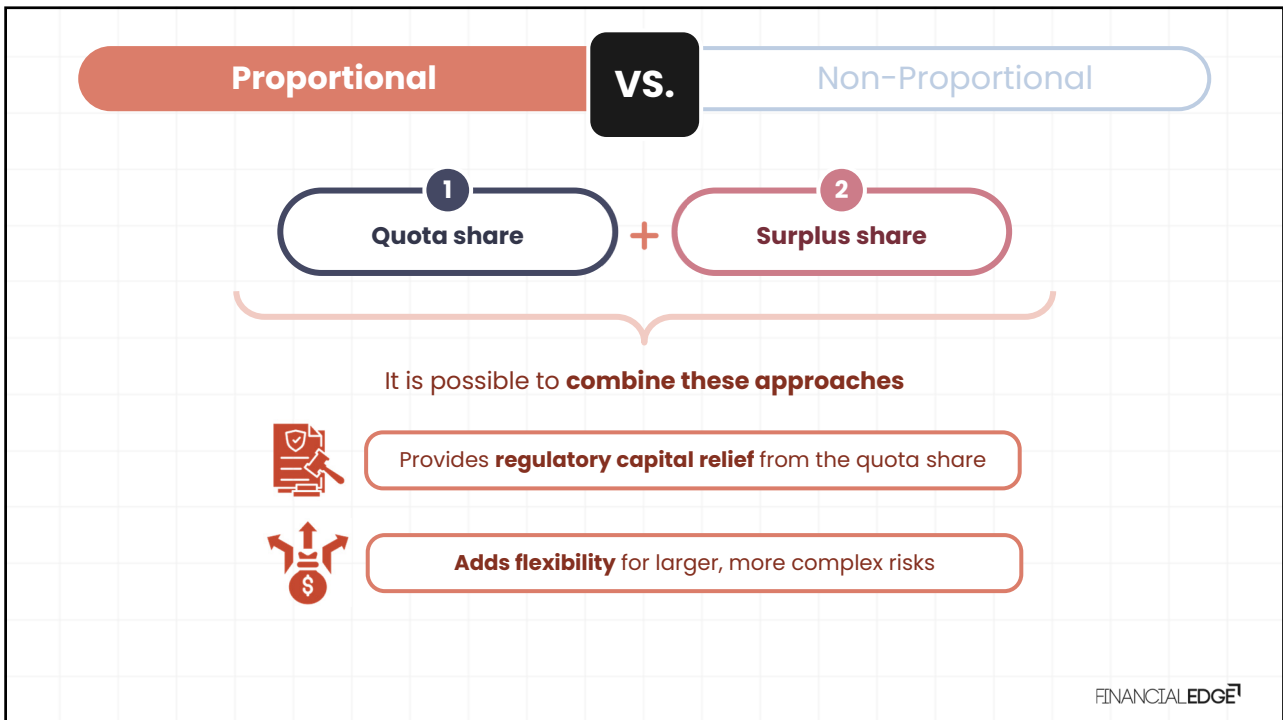


Proportional vs. Non-Proportional Reinsurance Treaties









Proportional

VS.

Non-Proportional

The reinsurer covers **all losses above a certain threshold** (attachment point)

Crucial for **managing**:

- **Tail risks** (large, low-probability)
- Large losses for **catastrophic events**
- **Multiple large claims**

Aims to **stabilize underwriting results** and **reduce capital requirements**

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Proportional

VS.

Non-Proportional

The reinsurer covers **all losses above a certain threshold** (attachment point)

Applications:

<p style="text-align: center; font-weight: bold; margin-bottom: 5px;">Risk Excess of Loss (Risk XL)</p> <p style="font-size: 0.8em;">A single risk, such as a building or aircraft</p>	<p style="text-align: center; font-weight: bold; margin-bottom: 5px;">Catastrophe Excess of Loss (Cat XL)</p> <p style="font-size: 0.8em;">The aggregate of losses from one catastrophic event, such as a flood, hurricane or earthquake</p>
<p style="text-align: center; font-weight: bold; margin-bottom: 5px;">Aggregate Excess of Loss (Agg XL)</p> <p style="font-size: 0.8em;">The aggregate of losses within a specific time period (typically 1 year)</p>	<p style="text-align: center; font-weight: bold; margin-bottom: 5px;">Stop Loss Reinsurance</p> <p style="font-size: 0.8em;">The cedant's entire portfolio. Reinsurer covers all losses beyond a specific loan ratio, protecting the cedant's profits</p>

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