Professional Certificate in Reinsurance Risk Analysis

Financial Management in Reinsurance

Financial Management in Reinsurance involves the effective and efficient use of financial resources to maximize profits and minimize risk for reinsurance companies. Reinsurance companies provide insurance to other insurance companies, allowing them to spread their risk and improve their financial stability. Effective financial management in reinsurance requires a deep understanding of key terms and vocabulary, including:

Reinsurance: an agreement between an insurance company (the cedent) and a reinsurance company (the reinsurer) where the reinsurer agrees to cover a portion of the cedent's losses.

Cedent: the insurance company that purchases reinsurance coverage from a reinsurer.

Reinsurer: the company that provides reinsurance coverage to a cedent.

Treaty: a type of reinsurance agreement that covers a specified portfolio of business over a specified period of time.

Facultative: a type of reinsurance agreement that covers a specific risk or policy, rather than a portfolio of business.

Retrocession: the process of a reinsurer transferring a portion of the risk it has accepted to another reinsurer.

Per-risk excess of loss: a type of reinsurance coverage where the reinsurer agrees to cover losses that exceed a specified amount per risk.

Aggregate excess of loss: a type of reinsurance coverage where the reinsurer agrees to cover losses that exceed a specified amount in the aggregate over a specified period of time.

Stop loss: a type of reinsurance coverage where the reinsurer agrees to cover losses that exceed a specified percentage of the cedent's premiums.

Quota share: a type of reinsurance coverage where the reinsurer agrees to cover a specified percentage of each loss.

Loss Ratio: the ratio of claims paid to premiums earned, used to measure the profitability of an insurance or reinsurance portfolio.

Combined Ratio: the sum of the loss ratio and expense ratio, used to measure the overall profitability of an insurance or reinsurance portfolio.

Expense Ratio: the ratio of expenses to premiums earned, used to measure the efficiency of an insurance or reinsurance company's operations.

Capacity: the maximum amount of risk that a reinsurer is willing to accept for a given portfolio or risk.

Capital: the amount of money that a reinsurer has available to support its underwriting and investment activities.

Risk-based Capital: the amount of capital that a reinsurer must hold to support its risks, as calculated using a risk-based capital formula.

Solvency: the ability of a reinsurer to meet its obligations to policyholders and other creditors.

Reinsurance Broker: an intermediary between cedents and reinsurers, who helps to negotiate and place reinsurance coverage.

Retrocessionaire: a reinsurer that provides retrocession coverage to another reinsurer.

Underwriting: the process of selecting and pricing risks for reinsurance coverage.

Premium: the amount of money that a cedent pays to a reinsurer for reinsurance coverage.

Claims: the amount of money that a reinsurer pays to a cedent to cover losses that are within the scope of the reinsurance agreement.

Reinstatement: the process of reinstating reinsurance coverage after a loss has occurred and been paid.

Commission: the amount of money paid to a reinsurance broker for their services in negotiating and placing reinsurance coverage.

Facultative Reinsurance Agreement: a reinsurance agreement that covers a specific risk or policy, rather than a portfolio of business.

Treaty Reinsurance Agreement: a reinsurance agreement that covers a specified portfolio of business over a specified period of time.

Per Risk Excess of Loss Reinsurance: a type of reinsurance coverage where the reinsurer agrees to cover losses that exceed a specified amount per risk.

Agreement: a legally binding contract between two or more parties.

Cession: the transfer of a portion of risk from the cedent to the reinsurer.

Limit: the maximum amount of coverage provided by a reinsurance agreement.

Deductible: the amount of loss that must be incurred before reinsurance coverage kicks in.

Expense Recovery: a provision in reinsurance agreements that allows the cedent to recover a portion of its expenses from the reinsurer.

Follow the Fortunes: a provision in reinsurance agreements that requires the reinsurer to follow the cedent's settlements of claims.

Arbitration: a process for resolving disputes between cedents and reinsurers.

Cut-through Endorsement: a provision in reinsurance agreements that allows a cedent to access the reinsurer's reinsurance coverage directly.

Non-cancelable: a type of reinsurance agreement that cannot be cancelled by either party.

Cancelable: a type of reinsurance agreement that can be cancelled by either party, subject to certain conditions.

Facultative Obligatory: a type of facultative reinsurance agreement where the reinsurer is obligated to accept a specified percentage of risks submitted by the cedent.

Facultative Discretionary: a type of facultative reinsurance agreement where the reinsurer has discretion over whether to accept each risk submitted by the cedent.

Surplus Share: a type of reinsurance coverage where the reinsurer agrees to cover a specified percentage of the cedent's surplus.

Quota Share Reinsurance: a type of reinsurance coverage where the reinsurer agrees to cover a specified percentage of each loss.

Excess of Loss Reinsurance: a type of reinsurance coverage where the reinsurer agrees to cover losses that exceed a specified amount.

Retention: the amount of risk that a cedent retains, as opposed to transferring to a reinsurer.

Retrocedent: a reinsurer that provides retrocession coverage to another reinsurer.

Retrocessionaire: a reinsurer that purchases retrocession coverage from another reinsurer.

Gross Premium: the total premium earned by a cedent, before reinsurance costs.

Net Premium: the premium earned by a cedent, after reinsurance costs.

Gross Loss: the total losses incurred by a cedent, before reinsurance recoveries.

Net Loss: the losses incurred by a cedent, after reinsurance recoveries.

Commission Expense: the amount of money paid to a reinsurance broker for their services in negotiating and placing reinsurance coverage.

Expense Ratio: the ratio of expenses to premiums earned, used to measure the efficiency of an insurance or reinsurance company's operations.

Loss Ratio: the ratio of claims paid to premiums earned, used to measure the profitability of an insurance or reinsurance portfolio.

Combined Ratio: the sum of the loss ratio and expense ratio, used to measure the overall profitability of an insurance or reinsurance portfolio.

Reinsurance Recoverable: the amount of money that a cedent expects to receive from a reinsurer to cover losses.

Reinsurance Recoverable but Not Yet Received: the amount of money that a cedent expects to receive from a reinsurer to cover losses, but has not yet received.

Reinsurance Recoverable Received in Advance: the amount of money that a cedent has received from a re