M97 **Reinsurance 2021**

Chartered Insurance Institute
Standards. Professionalism. Trust

Learning Outcome			Assessment Criteria		Indicative Content	

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1 4 Questions	Know the purpose of, and the parties involved in, reinsurance.	1.1	Explain the purpose of purchasing reinsurance.	1.1.1	Spreading risk.
				1.1.2	Capacity.
				1.1.3	Provides security for insurers.
				1.1.4	Increases insurers' confidence and stability in results.
				1.1.5	Insurers' corporate strategy including its portfolio and asset management.
				1.1.6	Solvency and taxation advantages for insurers.
				1.1.7	Cash flow advantages for insurers.
				1.1.8	Maximising profitability.
				1.1.9	Legal requirements.
		1.2	Explain the purpose of selling reinsurance.	1.2.1	Motivations for selling reinsurance.
		1.3	Identify the different parties involved in reinsurance and their various roles.	1.3.1	Insurance and reinsurance companies.
				1.3.2	Lloyd's syndicates.
				1.3.3	State owned and regional insurance corporations and state owed reinsurers.
				1.3.4	Takaful and retakaful companies.
				1.3.5	Professional reinsurance companies and reinsurance pools.
				1.3.6	Captives.
				1.3.7	Reinsurance brokers.
				1.3.8	Managing General Agents.
				1.3.9	Changes in buyers and sellers and resulting impact of reinsurance programmes.

M97 Reinsurance 2021

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2 **3** **Questions**	**Understand the different types of reinsurance.**	**2.1**	Outline the main types of reinsurance.	**2.1.1**	Facultative (proportional and non-proportional), basic features and advantages and disadvantages.
				2.1.2	Treaty (proportional and non-proportional), basic features and advantages and disadvantages.
				2.1.3	Distinguish between facultative and treaty reinsurance.
		2.2	Explain the difference between reinsurance and retrocession.	**2.2.1**	Features and objectives of retrocession and how it differs from other reinsurance.
				2.2.2	Advantages and disadvantages of retrocession.
				2.2.3	Identify the parties to a retrocession (retrocessionaire, retrocedant, reinsurer etc.).
		2.3	Discuss the alternatives to conventional reinsurance.	**2.3.1**	Features of alternative risk transfer.
				2.3.2	Capital market solutions, including industrial loss warranties, multi-trigger reinsurance policies and sidecars.
				2.3.3	Capital market advantages and disadvantages.
3 **2** **Questions**	**Understand the features and operation of facultative reinsurance.**	**3.1**	Explain the main features and operation of different types of facultative reinsurance.	**3.1.1**	Features and operation of proportional facultative reinsurance.
				3.1.2	Features and operation of non-proportional facultative reinsurance.
		3.2	Calculate reinsurance premiums and claims recoveries for proportional and non-proportional facultative reinsurance.	**3.2.1**	Calculate facultative proportional reinsurance premium.
				3.2.2	Calculate facultative proportional reinsurance claim recoveries.
				3.2.3	Calculate facultative non-proportional reinsurance premium.
				3.2.4	Calculate facultative non-proportional reinsurance claim recoveries.

M97 Reinsurance 2021

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4 8 Questions	Understand the features and operation of proportional reinsurance treaties.	4.1	Explain the main features and operation of different types of proportional reinsurance treaties.	4.1.1	Features and operation of quota shares.
				4.1.2	Advantages and disadvantages of quota shares.
				4.1.3	Features and operation of surplus treaties.
				4.1.4	Advantages and disadvantages of surplus treaties.
				4.1.5	Features and operation of facultative obligatory treaties.
				4.1.6	Advantages and disadvantages of facultative obligatory treaties.
		4.2	Explain the main accounting methods for proportional reinsurance treaties.	4.2.1	Underwriting year accounting.
				4.2.2	Clean cut accounting including premium and loss portfolio transfers.
		4.3	Discuss different types of commission on proportional reinsurance treaties.	4.3.1	Flat rate commission.
				4.3.2	Profit commission (flat).
				4.3.3	Profit commission (sliding scale).
				4.3.4	Loss participation and reverse profit commission.
		4.4	Discuss the use of premium and claims reserves.	4.4.1	Premium reserve deposits.
				4.4.2	Loss reserve deposits.
		4.5	Calculate reinsurance premiums and claims recoveries for proportional reinsurance treaties.	4.5.1	Calculation of premium and claim recoveries including net balances of quarterly accounts on quota shares treaty.
				4.5.2	Calculation of premium and claim recoveries including net balances of quarterly accounts on surplus treaty.
				4.5.3	Cash loss recovery.
		4.6	Discuss the use of cession and event limits in proportional reinsurance treaties.	4.6.1	Cession limits.
				4.6.2	Event limits.

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5 **7** **Questions**	**Understand the features and operation of non-proportional reinsurance treaties.**	5.1	Explain the main features and operation of different types of non-proportional reinsurance treaties.	5.1.1	Features and operation of risk excess of loss treaties.
				5.1.2	Features and operations of catastrophe excess of loss treaties.
				5.1.3	Advantages and disadvantages of excess of loss treaties.
				5.1.4	Features and operation of stop loss treaties.
				5.1.5	Advantages and disadvantages of stop loss treaties.
				5.1.6	Features and operation of aggregate excess of loss.
				5.1.7	Advantages and disadvantages of aggregate excess of loss.
				5.1.8	Use of other forms of excess of loss treaties, including clash, umbrella, buffer, back-up, reinstatement premium protection, top and drop protections and common account protection.
		5.2	Explain the different bases of cover attachment.	5.2.1	Risks attaching during basis.
				5.2.2	Losses occurring during basis.
				5.2.3	Claims made during and losses discovered during basis.
		5.3	Discuss the various types of premium calculation used in non-proportional reinsurance treaties.	5.3.1	Calculation of flat rate premium.
				5.3.2	Calculation and operation of adjustable premium.
				5.3.3	Information required for rating non-proportional reinsurance.
				5.3.4	Extraneous factors when pricing non-proportional.
				5.3.5	Components of a non-proportional premium.
				5.3.6	Pricing models.
		5.4	Calculate reinsurance premiums and claims recoveries for non-proportional reinsurance treaties.	5.4.1	Non-proportional premiums including adjustments and reinstatements.
				5.4.2	Excess of loss claims.
				5.4.3	Stop loss claims.
				5.4.4	Application of aggregate deductibles, limits and loss corridor.
				5.4.5	Application of event limits in claims recoveries.
				5.4.6	Clash calculations.
		5.5	Discuss the purpose and use of reinstatements.	5.5.1	Operation of reinstatements on non-proportional reinsurance treaties.
		5.6	Discuss the use of event limits in non-proportional reinsurance treaties.	5.6.1	Operation of event limits on non-proportional reinsurance treaties.

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6 **8** **Questions**	**Understand the design and placement of reinsurance programmes.**	**6.1**	Discuss the factors affecting the design of a reinsurance programme.	**6.1.1**	Factors influencing the choice of treaty.
				6.1.2	Combining non-proportional and proportional to make an effective reinsurance programme.
				6.1.3	Different pricing techniques, premium loading and actuarial input.
				6.1.4	Catastrophe modelling.
				6.1.5	Material information and fair presentation of the risk for reinsurers.
				6.1.6	Contractual placing documentation including Market Reform Contracts.
		6.2	Explain the use of reciprocity.	**6.2.1**	Features and operation of reciprocity.
		6.3	Discuss how security considerations affect reinsurance programmes.	**6.3.1**	Consideration by reinsureds of the security of reinsurers and how this affects selection of reinsures.
				6.3.2	Alternative security requirements from reinsurers that may be required by reinsureds.
7 **3** **Questions**	**Understand legal issues relating to reinsurance.**	**7.1**	Discuss the legal requirements for the formation of a reinsurance contract.	**7.1.1**	Principles of insurance and how they apply to reinsurance including Insurance Act 2015.
				7.1.2	Formation of reinsurance contract.
				7.1.3	Contract certainty.
		7.2	Discuss the key issues of interpretation of contractual documents.	**7.2.1**	Rules of construction.
				7.2.2	Express terms.
				7.2.3	Implied terms.
				7.2.4	The application of principles arising from reinsurance case law.
				7.2.5	Limitation and Limitation Act 1980.

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8 **5** **Questions**	**Understand reinsurance contract wordings.**	8.1	Describe the main reinsurance clauses and their importance.	8.1.1	Contract identification - parties, description and subject matter.
				8.1.2	Limitation clauses, including periods, territorial scope, special cancellation, special acceptances.
				8.1.3	Claims clauses, including notification, settlements.
				8.1.4	Law and dispute resolution clauses.
				8.1.5	Commutation and sunset clauses.
				8.1.6	Key clauses found in non-proportional wording, including Ultimate net loss, co-reinsurance, net retained line, Salvage and subrogation, aggregate Extension.
				8.1.7	Interlocking.
				8.1.8	Currency fluctuation and conversion.
				8.1.9	Other common clauses, including access to records, underwriting policy, errors and omissions, insolvency, offset, notice, intermediary, confidentiality, amendments and alterations, severability, entire agreements, non waiver, several liability.
		8.2	Describe the main reinsurance exclusions and their importance.	8.2.1	Nuclear.
				8.2.2	Pollution.
				8.2.3	War and terrorism.
				8.2.4	Sanctions exclusion clause.
				8.2.5	Other exclusions, including reinsurance assumed, insolvency fund, information technology hazard.
9 **3** **Questions**	**Understand the main features and characteristics of the principal reinsurance markets.**	9.1	Explain the main features and characteristics of the principal reinsurance markets.	9.1.1	Main features and characteristics typically applicable to main reinsurance markets.
				9.1.2	Specific features applicable to the main reinsurance markets and organisations operating within them.
		9.2	Discuss market cycles.	9.2.1	Features of hard and soft markets.
				9.2.2	Causes of a shift between a hard and soft market.
				9.2.3	The management of the underwriting cycle.

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10 **7** **Questions**	**Understand the principles and practices of different classes of reinsurance business.**	**10.1**	Explain the main underwriting considerations for specific classes of reinsurance.	**10.1.1**	Property.
				10.1.2	Casualty, including motor, public and products liability, professional indemnity, employers liability.
				10.1.3	Marine, including hull, cargo, liability, P&I, energy, war and terrorism.
				10.1.4	Aviation, including hull, liability, personal accident and space.
		10.2	Explain which types of reinsurance are best suited to specific classes of reinsurance.	**10.2.1**	Property.
				10.2.2	Casualty, including motor, public and products liability, professional indemnity, employers liability.
				10.2.3	Marine, including hull, cargo, liability, P&I, energy, war and terrorism.
				10.2.4	Aviation, including hull, liability, personal accident and space.
		10.3	Explain the terms and conditions applying to specific classes of reinsurance.	**10.3.1**	Property, including estimated maximum loss, hours clause-catastrophe.
				10.3.2	Casualty, including period of limitation, incurred but not reported losses, indexation, ECO, claims series, occupational disease clause, change in law clause.
				10.3.3	Marine, including joint excess loss clauses, war inclusion clauses.
				10.3.4	Aviation, including war inclusion clauses.