



Revised May 2008

Statement of Guidance

Reinsurance Arrangements

1. Statement of Objectives

- 1.1. To set out the elements of an licensed insurer's strategy to mitigate and diversify risks by the purchase of reinsurance cover, ultimately to ensure that reinsurance arrangements are in place to cover an appropriate level of the insurer's liabilities.
- 1.2. This guidance applies to all licensed insurers.
- 1.3. Details of the insurer's reinsurance arrangements form part of the licence application, consequently all changes to reinsurance arrangements must be approved by the Authority, in accordance with section 7(3) of the Insurance Law.

2. Reinsurance Strategy

- 2.1. The Board of Directors of all insurers should approve a reinsurance strategy, which is appropriate for the company.
- 2.2. The reinsurance contract should be reviewed both annually and when there have been changes to;
 - a) insurer's circumstances, including a significant growth in the overall exposures,
 - b) its underwriting strategy, or
 - c) the financial health of its reinsurers.



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2.3. The reinsurance strategy should contain and provide details on:

- a) How reinsurers will be selected, including how to assess the security;
- b) What collateral, if any, is required at any given time;
- c) The net risk to be retained;
- d) The maximum feasible amount of reinsurance protection to be obtained from the reinsurers, which should be determined according to event limits within the treaties and the probable maximum loss limits adopted by the insurer;
- e) How the reinsurance programme will be maintained i.e. the reporting and internal control systems, to include appropriate oversight of the reinsurance buyer by senior executive board members, and
- f) A full list of the reinsurers, their rating and the extent of their commitment.

2.4. The policies and procedures for the implementation of the reinsurance strategy should include:

- a) Underwriting guidelines that specify the types of insurance to be underwritten, the reinsurance policy terms and conditions, and aggregate exposure by type of business;
- b) Risk and cession limits on the amount and type of insurance that will be automatically covered by treaty reinsurance; and
- c) The criteria for acquiring facultative reinsurance cover.

2.5. Limits on the net risk to be retained should be set per line of business and/or for the whole account. Limits may be set per risk or per event or a combination thereof. Limits must be based on an evaluation of the risk profile and the cost of the reinsurance. The insurer must have adequate capital to support the risk retained.



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- 2.6. Insurers should seek to select reinsurers that have a proven track record of being willing and able to meet their obligations as they fall due.
- 2.7. The insurer's internal control systems should be established and maintained to report claims timeously to the appropriate reinsurer and to promptly collect reinsurance claims payments.