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# Reinsurance Treaties: What's in your Treaty?

**NHOLUA**  
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# Outline

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- ❑ Definition
- ❑ Types of Treaties
- ❑ Treaty Arrangements
- ❑ History & Current Environment
- ❑ Contents of a Treaty
- ❑ Underwriting Implications



# Definition

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## □ Treaty:

1. An agreement or arrangement made by negotiation
2. A legal contract between two insurance companies

Treaty. (2009). In Merriam-Webster Online Dictionary.



## What does your treaty look like?

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- ❑ Treaty of Union courtesy of the [Scottish Parliament](#) Web Site.



# Types of Treaties and Treaty Arrangements

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## □ Type

1. Coinsurance
2. Yearly Renewable Term (YRT)

## □ Arrangement

1. FDQS (First Dollar Quota Share)
2. EOR (Excess of Retention)

# Types of Treaties - Coinsurance

## ☐ Coinsurance

- Life reinsurance where the reserves as well as the risk are transferred to the reinsurer.
- The reinsurer provides an expense allowance to the ceding company to cover expenses incurred on the ceded portion of the risk.
- The ceding company maintains the contractual relationship with the insured.



# Types of Treaties - YRT

## □ Yearly Renewable Term (YRT)

- The risk, but not the plan reserves are transferred to the reinsurer. The reinsurer only reinsures the mortality.
- The ceding company is responsible for reserves, commissions, and all expenses involved in maintaining the policy.
- The premium varies each year based on the amount at risk and the age of the insured.



## Treaty Arrangements - FDQS

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### ❑ First Dollar Quota Share (FDQS)

A fixed percentage of each risk up to the ceding company retention is reinsured, which in most cases applies to the first dollar of coverage.

#### Example:

Company ABC has a 90/10 FDQS arrangement with Reinsurer XYZ.

- Face amount: \$100,000
- Company ABC retains 10% or \$10,000
- Reinsurer XYZ is ceded 90% or \$90,000





## Treaty Arrangements - EOR

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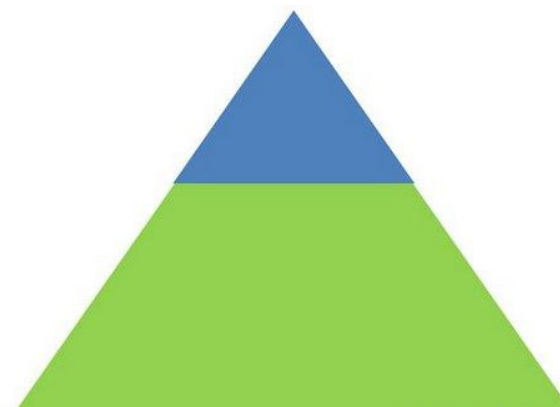
### ❑ Excess of Retention (EOR)

The ceding company reinsures risk in excess of their published retention.

#### Example:

Company ABC has an EOR arrangement with reinsurer XYZ. Company ABC's retention is \$500,000.

- Face amount \$1,000,000
- Company ABC Retains \$500,000
- Reinsurer ZYX is ceded \$500,000



# History of Treaties

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- ❑ “Gentleman’s Agreement”
  - Poor documentation, lack of clarity
  - Relied on mutual integrity and goodwill
  - Treaties often went unsigned for years



# Current Environment

- ❑ Extensive documentation, clearly defined parameters
  
- ❑ Has taken more of a contract format
  - Definition of the Risks Reinsured
  - Financial Terms
  - Administration
  - Special Provisions



# Contents of a Treaty

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1. Treaty Specifications
2. Table of Contents
3. Body of the Agreement
4. Schedules, Exhibits, Attachments
5. Amendments



# Treaty Specifications

- ❑ Names of parties covered by the agreement
- ❑ Treaty Type
  - YRT, Coinsurance
- ❑ Coverage Commencement Date
- ❑ Treaty Number



# Treaty Specifications: Example

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## Reinsurance Agreement

This **Automatic and Facultative YRT** Reinsurance Agreement

**Coverage Effective Date March 20, 2014**

between

**Company ABC (The Company)**

State of Domicile, USA

and

**Reinsurer XYZ (The Reinsurer)**

State of Domicile, USA

**Treaty Number 00001**

# Table of Contents

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- ❑ Outlines the treaty
- ❑ Great tool to find what you're looking for in the document

<b>Table of Contents</b>	
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# Body of the Agreement

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- ❑ Defines the following:
  - Parties
    - 1 reinsurer, 1 insurance company
  - Effective Date and Duration
    - The date the coverage under the agreement commences
    - Also states the limit for backdating policies
  - Basis of Reinsurance
    - YRT or Coinsurance



## Body of the Agreement - continued

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- ❑ Reinsurance Terms
  - Residence/travel
  - Occupation
  - Automatic Binding Limit/Jumbo Limit
  - Conventional Underwriting definition
  - Automatic/Facultative definition
  - Minimum Cession Size
  - Etc.

## Body of the Agreement - continued

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- ❑ Other areas covered by the body of the agreement:
  - Taxes
  - Interest
  - Claims
  - Administration
  - Reinstatements

## Body of the Agreement - continued

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- Conversions
- Reconsiderations
- Premium rates
- Recapture
- Insolvency/Arbitration
- MIB
- Access to Records
- Etc.

# Schedules, Exhibits and Attachments

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- ❑ This portion of the treaty covers:
  - products/plans/riders
  - retention/auto bind/jumbo
  - all applicable Underwriting guidelines
  - Administrative guidelines and examples.



# Amendments

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- ❑ An Amendment is a document that makes a change, addition or replaces information, in the original treaty.
- ❑ An Amendment can also make a change, addition or replace information in an existing amendment.



## Underwriting

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- ❑ What information contained in the treaty is important to an underwriter?



# Underwriting Implications

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- ❑ Plan of Coverage
  - Single Plan, Multiple Plans or Portfolio
- ❑ Residence
  - Countries eligible for automatic reinsurance are listed. U.S. and possibly other countries or territories.
- ❑ Issue Age
  - Minimum and Maximum issue ages are defined for automatic reinsurance

# Underwriting Implications



## Retention Schedule

- Defines the amount of risk the ceding company will retain on one life.
- Retention limits can be graded by age and rating
- Retention can be staggered:

Example: Retain first \$1,000,000 of face amount then anything over \$5,000,000 – up to a maximum of \$2,000,000.



# Underwriting Implications



- ❑ Automatic Binding Limit (Auto Bind)
  - The maximum amount of reinsurance that can be ceded on one life.
  - Auto Bind includes all inforce coverage with the ceding company on that one life.
  - All cases exceeding the Auto Bind must be sent facultative.

# Underwriting Implications



## ❑ Jumbo Limit

- The total amount inforce and applied for on one life cannot exceed the defined Jumbo Limit.
- Amounts to be replaced are included in the Jumbo Limit calculation.
- All cases exceeding the Jumbo Limit must be sent facultative.

\*\*Some companies have and “internal replacement” clause.

# Underwriting Implications



- ❑ “Once FAC, Always FAC”
  - Different variations of this old adage:
    - A case shopped facultative within the last \* years must be shopped facultative.
    - A case that was previously shopped facultative due to Auto Bind and now the Auto Bind for the company has increased – doesn’t have to be shopped.

\*\*\*Know your treaty!\*\*\*

# Underwriting Implications

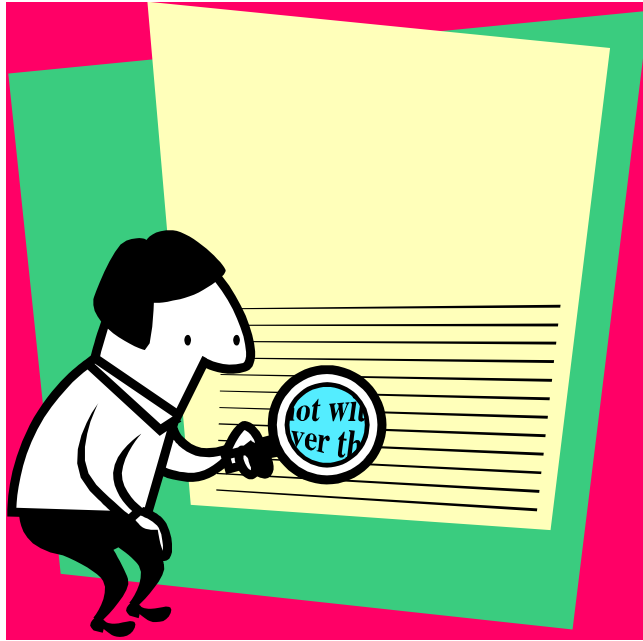


## ❑ Miscellaneous Restrictions:

- **Aviation** – reduced retention? Age limit?
- **Professional Athletes** – are they allowed in the automatic pool, retained or shopped Facultative?
- **High Profile Individuals** – are they allowed in the automatic pool, retained or shopped Facultative?
- **Foreign Travel** – Is there a special Foreign Pool or guidelines specific to Foreign Residence or Travel?



- ❑ Underwriting Guidelines
  - Published guidelines of the ceding company are referenced in the treaty, some treaties include actual copies.
  - Any change to the underwriting guidelines must be submitted for approval by the reinsurance pool members.
  - Cases that do not adhere to the published underwriting guidelines should not be ceded to the pool unless the reinsurer is contacted.



## ❑ Commencement of Liability

- When the ceding company has accepted the facultative offer. The treaty indicates the time limit within which acceptance must occur.
- Acceptance can be in the form of written acceptance “win notice” or receipt of the policy cession.



## ❑ Reinstatements

- **Automatic reinstatement** – ceding company follows their internal guidelines. The treaty may indicate a time limit after which the case would have to be submitted to the reinsurer for approval.
- **Facultative reinstatement** – all facultative reinstatements must be reviewed by the reinsurer.

# Underwriting Implications



- ❑ Inspection of Records
  - Allows a reinsurance pool member to audit the ceding company.
- ❑ Pool Share
  - Each member of the pool is designated a percentage of the total pool. The percentages can range from 5% if there are several pool members to 100% if there is only one reinsurer.



# Accelerated and Automated Underwriting

- ❑ Accelerated and Automated Underwriting programs that are reinsured require new treaties in many cases due to:
  - Different underwriting guidelines
  - Different underwriting requirements
  - Different retention
  - How to treat cases that started as AU, but now require full underwriting
  
- ❑ If you are developing an AU program, be sure to review your treaty for any wording that may need to be changed to cover the new program.



## Summary

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- ❑ Treaties are developed in cooperation between the ceding company and the reinsurance pool members. Each company has their own wording they would like to see included in the treaty, the final version is the result of negotiation.
- ❑ This helps explain why your company may have different rules for different products – the treaties may have been negotiated with different pool members.



**What is in your treaty?**

Questions?

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**Thank you for your attention!**