## Evaluating Reinsurance:

For a primary insurance entity, whether that be an insurance company or an alternative insurance entity, such as a pool, trust or association, there are actually multiple parts of the equation which should be evaluated. They fall into the categories of the coverage itself and the parties providing the coverage.

## Considerations in Evaluating Reinsurance Coverage:

When evaluating reinsurance coverage it depends on if you are simply comparing quotes for a renewal that essentially mirrors the expiring coverage or if you are evaluating multiple options that alter the structure and/or coverage provided.

1. Evaluating quotes on a renewal:
    a. How has the base or exposure changed from the expiring (TIV, Premium, Payroll)? Look at it on both a dollar and percentage basis.
    b. How has the loss experience changed from last year (up, down, the same) and what impact has it had on reinsurers?
    c. How as the reinsurance rate changed? (Again look at it on a percentage change basis)
    d. How has the reinsurance premium in dollars changed? Look at what the projected reinsurance premium will be for the expiring program (what the final reinsurance premium will be) and what the projected reinsurance premium will be based on the new program, on a dollar and percentage change basis.
    e. Have any of the conditions of coverage changed? Has there been any addition or elimination of exclusions in the contract? Any change in the retention or limit? Any change in other conditions?
    f. If you were evaluating the reinsurance coverage conditions and pricing relative to the current exposure and experience as compared to last year, does the reinsurers position make sense to you? If not, ask them to explain and justify their position. You can also ask them to identify things that you can do to improve the reinsurance coverage and pricing, recognizing that some of their suggestions may not be practical.

2. Evaluating various structure alternatives:

    Evaluating various structure alternatives can be more challenging because you are not comparing “apples to apples”. You need to make sure you factoring in all aspects of the true costs to your organization. For example, increasing your retention will naturally lower your reinsurance costs, but it will increase your net exposure. You need to evaluate the cost – benefit of the reinsurance premium savings with the increased exposure associated with the increased retention and the volatility that presents.



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a. Retention: Analyse your historic loss experience that falls in between your current retention level and the new retention level you are considering. Is there any frequency in the number of losses and the size of loss? Is it really predictable? Look at what you think could happen in addition to what has happened. This will give you some feel for your change in exposure. How does this compare to the savings you would receive by increasing your retention? With the soft market, is it time to consider a reduction in your retention? How has your ability to retain risk changed from last year? You may also want to solicit input from your actuary to trend and develop your losses to examine the impact on your net position associated with any change in retention.

b. Limit/Capacity: Has your vendor provided you with a catastrophe analysis or other actuarial analysis to help you assess your needs? How does your projected loss compare with the amount of capacity you are purchasing? Some entities purchase huge amounts of capacity that they probably don't need. Some entities may be purchasing too little. Higher layers of capacity typically carry a minimum premium charge as very few if any losses ever hit the layer so it can not be priced off of experience. Do your insured's need the capacity you have available? If you elected to reduce your capacity offering to what is actually being purchased, will this reduce your costs?

c. Coverage: What is your entities mission for the coverage you are seeking to provide to your members? Does your current reinsurance program support that or does your reinsurance program dictate the coverage you are able to provide your members? What conditions need to change in order for you to provide the desired coverage to your members?

**Considerations in Evaluation a Reinsurance Partner and/or a Reinsurance Intermediary:**

1. What services and resources do they provide?
   a. Are they offering actuarial modeling services? Catastrophe modeling analyses?
   b. Do they provide cost/benefit analyses to illustrate what your net position is expected to be when evaluating reinsurance structure alternatives?
   c. Do they provided you with full draft contract wordings prior to binding the coverage and clearly highlight any changes so that you can be aware of any changes in conditions prior to binding the coverage?
2. How consistent has your representation/relationship been? Even if you have had the same partner(s) for many years, has the underwriter or broker team remained the same or has it changed? Are the services that they are currently providing meeting your current needs? Future needs?
3. Have your reinsurance coverage needs changed? Is it time to look at alternatives? Does your reinsurer/reinsurance advisor bring alternatives to the table for your consideration?
4. Is the service you receive unsatisfactory/below average/average/above average/exceptional? Why do you feel that way? where you would expect or has it changed?

5. Claims Processing and Collection – Have you processed claim reports and billings to your reinsurer(s)? If yes, what reaction did you get to the claim reports? Did they provide claim payments on a timely basis? Were they fighting you/questioning you on the claims? Were their questions logical? Did they honor their obligations on a professional timely basis?

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