

REINSURER'S HANDBOOK

Renewal Review, Cedant Evaluation & Treaty Pricing

A Strategic Reference for Reinsurance Professionals

EXECUTIVE SUMMARY

Market Context: The global reinsurance market serves as the bedrock of financial stability for the insurance industry, providing essential capital relief and volatility management for insurers navigating systemic uncertainty.

Evolution of the Role: As demonstrated by Lead Reinsurers through recent years strategic cycles, reinsurers have transitioned from mere capacity providers to sophisticated risk partners leveraging proprietary data, advanced analytics, and alternative capital structures.

Core Discipline: Renewal decision-making is rooted in active cycle management. In an environment of fluctuating rates, social inflation, and climate-induced perils, reinsurers must write only business meeting stringent profitability requirements.

Strategic Imperative: The renewal process is a strategic interrogation of the cedant's business model, underwriting discipline, and claims-handling efficacy — not a transactional event.

RENEWAL DECISION PHILOSOPHY

Guiding principles that define the reinsurer's approach to every renewal cycle.

- **Active Cycle Management:** Write only business that meets internal hurdle rates. Be prepared to decline when technical adequacy is not achieved, regardless of relationship history.
- **Data-Driven Risk Assessment:** Integrate historical loss development with forward-looking risk modeling and macroeconomic indicators to optimize capital allocation across the global portfolio.
- **Strategic Interrogation:** Every renewal is a rigorous evaluation of the cedant's business model, underwriting discipline, reserving philosophy, and claims-handling efficacy — not a routine renewal exercise.

RENEWAL SUBMISSION

Required Data & Documentation · Submission Checklist · Red Flags

SUBMISSION CHECKLIST (1 / 2)

A professional treaty renewal submission must encompass the following quantitative documentation:

- ✓ **Underwriting Data & Portfolio Composition:** Detailed breakdown by line of business, risk profile (premium, limits, occupancy), geographic distribution using CRESTA zones or high-resolution coordinates, and policy limits profile.
- ✓ **Historical Loss Data:** A minimum of 5–10 years of loss history including paid and incurred amounts. Large losses must be itemized with specific causes, event dates, current status, and reserving methodology.
- ✓ **Claims Development Triangles:** Provided at least annually on an underwriting year or accident year basis to enable IBNR (Incurred But Not Reported) estimation and actuarial loss development analysis.

SUBMISSION CHECKLIST (2 / 2)

Additional qualitative and structural documentation required for a complete submission:

- ✓ **Exposure Data:** For property and catastrophe lines: distribution of Total Insured Value (TIV) and detailed building characteristics including construction type, occupancy, age, and fire protection class.
- ✓ **Business Plan & Strategy:** Forward projections for premium growth, target rate changes, and planned expansions into new territories or products — providing prospective context for the historical data.
- ✓ **Current vs. Expiring Program Structure:** A clear schematic of the existing reinsurance tower including any facultative placements or underlying proportional covers that affect the treaty being priced.

DATA DEFICIENCIES & SUBMISSION RED FLAGS

Underwriters must remain alert to indicators of poor data governance, as these often correlate with underlying underwriting volatility. Common red flags include:

Data Fragmentation

Inconsistent historical records where data entry practices have changed over time or across business units, making multi-year trend analysis unreliable and statistical credibility questionable.

The Validation Gap

Submissions where underlying numbers have not been verified against actual policy documents or claims files — creating a 'manual reconciliation dependency' where errors compound across reporting periods.

Compressed Timelines

Submissions provided late in the renewal cycle, leaving no room for thorough analysis or missing-data requests. Often a tactical manoeuvre to force renewal on expiring terms without scrutiny.

CEDANT ASSESSMENT

In treaty reinsurance, the reinsurer is not just underwriting a risk; it is underwriting

- the management and discipline of the ceding company.
- A successful partnership requires mutual trust, transparency &
- A shared understanding of risk.

Reinsurers utilize multi-dimensional scoring frameworks to evaluate the "quality" of a cedant beyond the immediate loss ratio.

MANAGEMENT QUALITY & CORPORATE GOVERNANCE

Reinsurers underwrite the management and discipline of the ceding company, not just the risk.

- **Governance Standards:** Evaluation begins with the management team's adherence to stated underwriting guidelines — clear parameters for risk tolerance, concentration limits, and accumulation control must be consistently enforced.
- **Communication & Transparency:** The reinsurer must understand the specific risks assumed and be promptly alerted to any material changes in business strategy, portfolio mix, or market positioning.
- **Executive Stability:** Strong governance requires continuity in key roles. Frequent senior management turnover signals potential strategic drift and undermines confidence in multi-year treaty relationships.

UNDERWRITING DISCIPLINE & CLAIMS HANDLING

Claims Procedures: Reinsurers must have in-depth knowledge of the cedant's claims handling procedures. Reporting lags and changes in reserving practices can distort the technical provisions established by the reinsurer, directly impacting pricing adequacy.

Right to Review: A standard treaty feature allowing periodic claims and underwriting review. This right ensures the cedant is operating according to agreed standards and that reserving practices are consistent with treaty terms.

Guideline Enforcement: A cedant's ability to enforce its own underwriting guidelines — especially in soft market conditions when temptation to relax standards is greatest — is the single most reliable predictor of long-term treaty profitability.

FINANCIAL STRENGTH & STRATEGIC ALIGNMENT

Beyond loss ratios — assessing the cedant's financial resilience and long-term partnership value.

- **Solvency & Capital:** Audited financial statements, solvency reports, and leverage ratios form the quantitative foundation of counterparty assessment. Capital strength provides the buffer against multi-year adverse development.
- **Strategic Alignment:** Assess whether the cedant's growth plans match the reinsurer's risk appetite and whether the relationship offers long-term value — access to new markets, proprietary data insights, or capacity diversification.

PORTFOLIO ANALYSIS

Exposure Analysis · Accumulation Control · Trend Analysis & Inflation Impact

TREND ANALYSIS & INFLATION IMPACT

Evaluation Category	Core Metrics and Indicators	Significance to Reinsurer
Underwriting Discipline	Adherence to guidelines, rate adequacy, risk selection	Predictability of loss performance
Claims Handling	Reserving accuracy, settlement speed, audit results	Reliability of loss data and IBNR estimates
Financial Strength	Solvency ratios, rating agency scores, capital buffer	Mitigation of credit and counterparty risk
Data Transparency	Granularity of submission, speed of reporting	Financial Strength
Strategic Relationship	Historical tenure, multi-line participation, trust	Stability during hard market cycles

ACTUARIAL & PRICING METHODOLOGIES

Proportional Treaty · Non-Proportional · Catastrophe Risk · Exposure Rating

TREND ANALYSIS & INFLATION IMPACT

Economic Inflation

Impacts property replacement costs, medical expenses, and wages.

Reinsurers must ensure cedants trend original policy limits and insured values to avoid 'under-insurance' — which leverages loss to excess layers and distorts burning-cost calculations.

Social Inflation

A critical driver in casualty lines — claims costs rising above economic inflation due to shifting societal preferences, evolving legal tactics, litigation funding, and nuclear verdicts. Requires explicit adjustment in actuarial trend factors.

Trend Application

Historical loss data must be adjusted to prospective levels using frequency and severity trend factors. Reinsurers apply these independently to attritional and large-loss components to capture the different dynamics of each.

PROPORTIONAL TREATY: COMMISSION STRUCTURES

The objective in proportional pricing is to estimate the expected ultimate loss ratio (ELR) and determine the appropriate ceding commission to be paid to the cedant

Experience Compilation

Five or more years of historical premiums and losses are adjusted to an "as-if" basis, assuming current treaty terms were in place.

On-Leveling Premium

Historical risk profile stating different risk category whether by Sum insured or by occupancies highlight sum insured vs premiums are adjusted to the find out the rate level.

Loss Development and Trending

Losses are developed to ultimate levels using loss development factors (LDF) and trended to the prospective period using severity and frequency trends.

PROPORTIONAL TREATY: COMMISSION STRUCTURES

Flat Commission

A fixed percentage of ceded premium paid to the cedant. Simple and transparent — easy to price and monitor. Typical range: 20–35% depending on cedant loss ratio history. Preferred for budget predictability.

Sliding Scale Commission

Commission varies with the actual loss ratio. Example: provisional 28% slides to 19% if loss ratio hits 73%, or rises to 45% if it drops to 47%. Protects reinsurer margin (8–10%) while rewarding cedant for superior risk selection.

Profit Commission

Additional payment if the treaty generates technical profit after losses, commissions, and expense loading. Formula: $(\text{Premium} - \text{Losses} - \text{Commission} - \text{Expense}) \times \text{Profit Share \%}$. Aligns cedant incentives with reinsurer profitability goals.

NON-PROPORTIONAL TREATY PRICING

Experience Rating — Burning Cost: The average annual cost of claims that would have historically impacted the specific layer, divided by subject premium. This raw figure is loaded for IBNR development, inflation, and a risk margin to produce the Rate on Line (RoL).

Exposure Rating: Used when historical data is sparse or the layer is remote. Applies exposure curves (Lloyd's Scales, Salzmänn Curves, ISO Increased Limits Factors) to estimate what proportion of total portfolio loss falls into the layer.

ILF Formula: $\text{Layer Loss} = \text{TotalLoss} \times [\text{ILF}(a + l) - \text{ILF}(a)] / \text{ILF}(\text{max_limit})$, where 'a' is the attachment point and 'l' is the layer limit. This method is the standard for excess-of-loss pricing when empirical layer experience is thin.

EXPOSURE RATING & FREQUENCY-SEVERITY MODELLING

Advanced methods for pricing layers where empirical experience is limited.

- **Collective Risk Model:** Aggregate Loss = $\Sigma(N \text{ individual losses})$, where $N \sim \text{Poisson or Negative Binomial}$ (frequency) and individual severity $\sim \text{Lognormal, Pareto, or Gamma distribution}$. Parameters fitted to cedant's historical data.
- **Lognormal Aggregate Distribution:** Widely used to approximate sliding scale commission cost. Parameters derived from coefficient of variation ($CV = \sigma/\mu$): $\sigma^2 = \ln(1 + CV^2)$, $\mu = \ln(E[L]) - \sigma^2/2$. Enables simulation of expected commission cost distribution.
- **Model Selection:** Pareto distributions are preferred for heavy-tailed liability lines; Lognormal for property attritional losses; Gamma for moderate-volatility casualty. Selection must be tested via goodness-of-fit against cedant's empirical loss size distribution.

CATASTROPHE RISK EVALUATION

Vendor Models & Proprietary Views: Catastrophe risk requires both vendor models (RMS RiskLink, AIR Touchstone) and proprietary views of risk. 'Model miss' occurs when historical events are unrepresentative of future climate conditions or when building vulnerability is underestimated.

Hours Clauses: A critical technicality defining the timeframe for a single 'loss occurrence.' Standard durations: 72 hours for Earthquake and Windstorm/Tornado; 168 hours for Flood; 168 hours for Strike, Riot & Civil Commotion (SRCC) and Terrorism.

Stress Testing: Deterministic scenarios — such as a repeat of a historic hurricane with current exposures and sea levels — are used to assess potential capital impact. These supplement probabilistic model outputs and expose tail-risk concentrations.

TERMS & CONDITIONS REVIEW

Exclusions

Standard exclusions: war & political risks Exclusion. nuclear/biological/chemical/radiological (NBCR) risks, and Silent Cyber — unintended cyber coverage embedded in non-cyber policies. Each must be explicitly and unambiguously worded.

Claims Cooperation & Control

Specifies the reinsurer's right to participate in the defence and settlement of large claims. Essential in the era of social inflation and nuclear verdicts. Must be balanced with clear thresholds for mandatory notification.

Follow the Fortunes

Obligates the reinsurer to follow the cedant's claim settlements made in good faith within treaty terms. Must be explicitly balanced with adequate audit rights and notification requirements to prevent abuse.

CAPITAL ALLOCATION & RISK APPETITE

Every treaty competes for a share of the reinsurer's global capital. Frameworks for disciplined deployment:

- ✓ **RAROC Framework:** Capital is deployed where it generates the highest Risk-Adjusted Return on Capital. Every treaty's RAROC is benchmarked against an internal hurdle rate before acceptance.

- ✓ **Expected Reinsurer Deficit (ERD):** Quantifies the amount of genuine risk transfer. An ERD threshold of 1% is the standard minimum hurdle for a contract to qualify as insurance rather than financial reinsurance.

- ✓ **Accumulation Control:** Treaty capital consumption must fit within the reinsurer's geographic and peril accumulation limits. Each binding adds to the aggregate PML position reviewed against the Reinsurance Total protections through their retrocession Tty.

PORTFOLIO DIVERSIFICATION BENEFITS

How global diversification reduces capital requirements and enables competitive pricing.

- **Life vs. P&C Balance:** Maintaining a 30–70% range between P&C and life business optimises returns: life provides lower volatility and stable cash flows while P&C delivers higher but more erratic returns and broader market access.
- **Geographic Diversification:** Spreading exposure across non-correlated geographies (Africa, Middle East, Asia, Europe) reduces aggregate PML and group-level capital requirements, enabling more competitive terms on individual treaties.
- **Capital Efficiency:** Diversification reduces total group capital requirements, allowing the reinsurer to offer more attractive pricing or broader coverage on individual treaties while maintaining acceptable risk-adjusted returns at the portfolio level.

RENEWAL DECISION FRAMEWORK

Step-by-Step Decision Model · Final Decision Path · Negotiation Strategy

RENEWAL DECISION FRAMEWORK: THREE FILTERS

1 • Technical Adequacy

Does the pricing meet the internal hurdle rate? Is the ERD above the required threshold? Does the Rate on Line cover expected losses plus a risk margin? Are there unresolved model uncertainty concerns?

2 • Qualitative Filter

Does the cedant score highly on management quality and claims handling? Are there red flags in the submission (compressed timelines, data fragmentation, validation gaps)? Is the governance history supportive?

3 • Strategic Value Review

How much capital does this treaty consume? Does it fit within geographic and peril accumulation limits? Is this a long-term strategic partner providing access to critical data or emerging markets?

FINAL DECISION PATH

Four possible outcomes following the three-filter decision model:

- ✓ **Accept as Is:** The treaty meets all pricing, qualitative, and capital adequacy criteria. Proceed on offered terms without material modification.
- ✓ **Accept with Revised Terms:** Increase the retention (priority) or tighten exclusions to move the treaty away from attritional volatility. Adjust scope rather than price where appropriate.
- ✓ **Reprice:** Increase the Rate on Line or reduce the ceding commission to reflect the true cost of risk, claims inflation, and prospective loss trends. Justify through granular data analytics.
- ✓ **Decline:** When pricing adequacy cannot be achieved or when active cycle management dictates withdrawal from a specific line, region, or cedant relationship.

NEGOTIATION STRATEGY

Cedant's Goal: Secure the highest limits, maximum commissions, and lowest possible premium in XL treaties while maintaining broad coverage and high capacity from preferred markets.

Reinsurer's Goal: Achieve risk-adequate pricing that reflects inflation and forward loss trends, while managing capital deployment within strategic accumulation limits across the global portfolio.

Differentiate with Analytics: Use granular portfolio data to tell the story of why loss trends are changing. Demonstrating social inflation's impact on a specific line justifies rate increases more effectively than citing broad market movements.

Flexible Structuring: If price is a sticking point, offer alternative structures — loss corridors or sliding scale commissions — that protect the reinsurer's downside while giving the cedant the chance to earn back premium through superior performance.

BEST PRACTICES FOR PRICING CHANGES

Data-Led Differentiation

Granular, cedant-specific analytics are more persuasive than broad market benchmarks. Build a narrative around the cedant's own loss history, trend components, and portfolio changes to justify any pricing movement.

Flexible Structuring

Loss corridors, sliding scales, and profit commissions offer structural alternatives when headline price is a sticking point. These align interests across the full treaty term without sacrificing margin protection.

MONITORING & POST-BINDING REVIEW

The renewal process does not end at binding — proactive portfolio management is essential.

- **Performance Tracking:** Continuous monitoring of quarterly bordereaux (detailed premium and loss reports) to compare actual results against pricing model assumptions. Early deviation signals the need for proactive intervention.
- **Early Warning Indicators:** Identify lapse risk spikes or sudden increases in claim frequency which could indicate deterioration in the cedant's underwriting discipline. Frequency trends are often more informative than severity trends as early signals.

CEDANT EVALUATION SCORECARD

20%

Management & Strategy

Governance quality,
strategy clarity,
executive stability

30%

Underwriting Discipline

Rate adequacy,
guideline adherence,
risk selection quality

25%

Claims & Data Quality

Reserving philosophy,
audit results,
data granularity

25%

Financial & Solvency

Capital strength,
leverage ratio,
counterparty risk

PARAMETRIC & ALTERNATIVE CAPITAL

Feature	Traditional Indemnity Insurance	Parametric (Index-Based) Insurance
Payout Basis	Assessed physical damage and financial loss	Pre-defined parameter or index threshold
Settlement Timeline	Weeks to months (or years for complex claims)	Days to weeks (often 14 to 30 days)
Financial Strength	High (involves loss adjusters, legal, and admin)	Low to nil (automated or simple verification)
Objectivity	Subjective (dependent on adjuster assessment)	High (dependent on third-party data feeds)
Transparency	Lower (complex policy wording and exclusions)	High (clear triggers and pre-agreed amounts)

PARAMETRIC & ALTERNATIVE CAPITAL

Feature	Traditional Indemnity Insurance	Parametric (Index-Based) Insurance
Moral Hazard	Significant (insured may exaggerate loss)	Near-zero (insured cannot influence the index)
Adverse Selection	Higher risk for the insurer	Lower (underwritten on hazard probability)
Usage Flexibility	Restricted (typically used for repairs/replacement)	High (can be used for liquidity, payroll, or any need)
Primary Limitation	Lengthy adjustment and trapped capital	Basis risk (potential payout mismatch)