ST7 acronyms

### Claims characteristics - CRAFT CRAMPS VEND DRILL

**C**atastrophes  
**R**eporting delays  
**A**ccumulations  
**F**requency  
**T**rends

**C**urrency  
**R**einsurance  
**A**mount (severity)  
**M**oral hazard  
**P**artial payments  
**S**ettlement delays

**V**olatility  
**E**vent delays  
**N**il claims  
**D**efinition

**D**istribution  
**R**eopened claims  
**I**nflation  
**L**arge claims  
**L**atent claims

### Conditions for insurability - Ch 2 - FIVE PUMPS

\***F**inancially and reasonable quantifiable risk  
**I**ndividual risk events should be independent of each other  
**V**ariance reduced by pooling large numbers of similar risks, and hence acheive more certainty  
**E**xisting statistical data / information sufficient to quantify risk

\***P**olicyholder has an interest in the risk, to distinguish between insurance and gambling  
**U**ltimate liability should be limited  
**M**oral hazard should be eliminated as far as possible  
**P**robability of event should be relatively small  
\***S**ize of financial loss commensurance with the amount payable in the event of a claim

### Advantages / disadvantages of quota share - Ch 5

+ spreads risk, increasing capacity and encouraging reciprocal business  
+ directly improves the solvency ratio (without losing market share)  
+ is administratively simple  
+ may provide commission that helps with cashflow  
- cedes the same proportion of low and high variance risks  
- cedes the same proportion of risks, irrespective of size  
- passed a share of any profit to the reinsurer  
- is unsuitable for unlimited covers

### Advantages / disadvantages of surplus - Ch 5

+ enables the insurer to fine-tune its experience  
+ enables the insurer to write larger risks  
+ is useful for classes where wide variation can occur in the size of risks  
+ helps to spread risks  
+ may provide commission that helps with cashflow  
- requires more complex administration  
- is unsuitable for unlimited covers and personal lines cover

### Advantages / disadvantages of excess of loss - Ch 5

+ allows the insurer to accept risks that could lead to large claims  
+ reduces risk of insolvency from a large claim, an aggregation of claims, or a catastrophe  
+ reduces claim fluctuations (and so smooths results)  
+ helps to make more efficient use of capital  
- the insurer pays a premium to the insurer that, in the long run, if priced accurately, will be greater than the expected recoveries under the treaty

### Types of finite risk (or financial) reinsurance - Ch 5 - FISTS

**F**inancial quota share  
**I**ndustry loss warranties  
**S**pread loss covers  
**T**ime and distance policies  
**S**tructured finance