HMRC - IPT04220 - Reinsurance: Contracts Of Reinsurance

Reinsurance is a complex field of insurance business and takes many forms. Many general insurers are involved in selling reinsurance and there are specialist reinsurers. A contract of reinsurance is one where part of the risk accepted by the insurer is passed or ceded to another insurer (a reinsurer) under a contract between the original insurer and the reinsurer. The original insured is not a party to this contract of reinsurance.

The original insurer pays a premium to the reinsurer as consideration for reinsurance. There are different types of reinsurance, which are defined by how the risk and premium are ceded.

The exemption applies to all true reinsurance, whether facultative (accepted by the reinsurer on a case by case basis), or treaty (where there is an agreement that the reinsurer will accept all of the insurer’s risks in, say, a certain class of business).

A simple example of reinsurance might work as follows:

Bloggs and Co. seeks insurance against fire, flood, or bomb damage to their office buildings and approaches insurer A for cover.

Insurer A agrees to accept the risk and provide insurance.

In turn, Insurer A might approach Insurer B and ask them to cover any claims for flood damage. Insurer B reinsures Insurer A against claims for flood damage made by Bloggs under their policy. The contract that Bloggs has with Insurer A is completely separate from the contracts that Insurer A has with Insurer B.

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