HMRC - IPT04230 - Reinsurance: What Is Not Regarded As A Contract Of Reinsurance?

Contracts of reinsurance do not include situations where:

a risk is accepted by a second insurer through the agency of another (for example, in some types of fronting arrangements – see IPT03540);

a company has “self insured”, that is, has decided to bear part of its own risk rather than taking out a contract of insurance. In such cases, the company may “self insure” up to a certain level and, for losses over that level, may take out an insurance contract. That contract is not a contract of reinsurance;

any insurer obtains insurance as cover against the usual commercial risks which any enterprise would cover itself against - e.g.: employers’ liability;

two or more insurers share a risk in agreed proportions (co-insurance). In all these situations, an insurer has not accepted a risk and then insured themselves by passing part or all of the same risk to another insurer (the reinsurer). As these situations do not involve contracts of reinsurance, the premium paid by the insured party is not exempt from IPT as reinsurance.

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