Kenya Re Facultative Reinsurance Working Sheet – Guide & Computation Formulas

# FACULTATIVE REINSURANCE WORKING SHEET – GUIDELINE

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| **Column 1 (Guideline)** | **Column 2 (Explanation / What to Capture)** |
| Insured | The original client (company/individual) that owns the risk. For example, a factory owner, airline, or shipping company. |
| Cedant | The insurance company that issued the original policy and is now passing part of the risk to the reinsurer. |
| Broker | The intermediary who facilitates the facultative placement between the cedant and the reinsurer. |
| Perils Covered | The specific risks being insured (e.g., fire, explosion, flood, earthquake, machinery breakdown). |
| Geographical Limit (Country/Region) | Where the insurance coverage applies (e.g., Kenya, East Africa, Worldwide). |
| Situation of Risk/Voyage | Physical location of the risk (like factory address, oil rig site) or the route if it’s marine cargo. |
| Occupation of Insured | The business/industry of the insured (e.g., manufacturer, hospital, power plant). |
| Main Activities | The core operations the insured undertakes (e.g., textile production, aviation services). |
| Total Sum Insured (TSI) & Breakdown | The full value insured under the facultative placement, with details of major components (e.g., buildings, machinery, stock). |
| Excess/Deductible | The amount of loss the insured must bear before the insurance or reinsurance responds. |
| Retention of Cedant (%) | The share of risk that the cedant keeps before ceding the rest to reinsurers. |
| Possible Maximum Loss (PML %) | The reinsurer’s estimate of the maximum probable loss if a major event occurs. Expressed as a percentage of TSI. |
| CAT Exposure (<https://www.globalquakemodel.org/>) | Exposure to natural catastrophes (earthquake, flood, cyclone, etc.). May involve checking with catastrophe models. |
| Period of Insurance | Duration of coverage (e.g., 12 months from 01/01/2025 to 31/12/2025). |
| Reinsurance Deductions | Any specific deductions applicable under the reinsurance contract (e.g., brokerage, taxes). |
| Claims Experience (Last 3 years) | Record of claims made under similar policies in the last three years — frequency, severity, and causes. |
| Share Offered (%) | The portion of the facultative risk being offered to this reinsurer by the cedant/broker. |
| Inward Acceptances | Refers to risks accepted from another cedant’s treaty or reinsurance inward flow (rarely used). |
| Risk Surveyor’s Report | Technical inspection report on the risk, if available (e.g., safety measures, construction quality, fire protection). |
| Premium Rates | Pricing rate applied to the sum insured (percentage or per mille). |
| Premium | Actual premium payable, in original currency, and its equivalent in KES (Kenyan Shillings). |
| Climate Change Risk Factors | Assessment of whether the insured is highly, moderately, or minimally exposed to climate-related risks. |
| ESG Risk Assessment (PSI-ESG-guide-for-non-life-insurance) | Evaluation of Environmental, Social, and Governance risk levels (Low/Medium/High). |
| % Share (Proposed Acceptance) | The portion of the risk the reinsurer proposes to accept, based on analysis. |
| Liability (Original currency & KES)  Use <https://www.oanda.com/currency-converter/> | The actual monetary liability the reinsurer takes if the risk is accepted. |
| Premium (Original currency & KES)  Use <https://www.oanda.com/currency-converter/> | The corresponding premium income for the accepted share. |
| Remarks | Additional notes or special observations about the placement. |
| Technical Assessment | A detailed analysis of the risk, protection measures, management quality, and specific vulnerabilities, and positive aspects of the risk |
| Market Considerations | Insights on market conditions, competitor pricing, and negotiation dynamics. |
| Portfolio Impact | Effect of this risk on the reinsurer’s overall book (e.g., concentration, diversification). |
| Proposed Terms & Conditions | Any recommended special terms, warranties, or exclusions to be applied. |
| Positive Assessment | Positive factors that strengthen the risk (good housekeeping, fire systems, strong management). |
| I propose we write … % share | Final underwriting recommendation on the percentage share to accept, subject to terms. |
| Signature/Date/Time | Underwriter’s sign-off and timestamp of analysis. |
| Manager’s Comments | Space for the manager’s review, approval, or further instructions. |

# Computation Formulas

## 1) Premium Rate (when Premium and TSI are given)

As a percentage  
Formula: Rate % = (Premium ÷ TSI) × 100  
Excel: =Premium/TSI\*100  
  
As per mille (‰)  
Formula: Rate ‰ = (Premium ÷ TSI) × 1000  
Excel: =Premium/TSI\*1000  
  
Tip: Use either % or ‰ consistently (don’t mix them).

## 2) Premium (when Rate and TSI are given)

If rate is a percentage  
Formula: Premium = TSI × (Rate % ÷ 100)  
Excel: =TSI\*Rate\_percent/100  
  
If rate is per mille (‰)  
Formula: Premium = TSI × (Rate ‰ ÷ 1000)  
Excel: =TSI\*Rate\_permille/1000

## 3) Loss Ratio

Formula (standard): Loss Ratio % = {Incurred Losses ÷ Earned Premium(for 3 years, assumed with the current premium)} × 100  
Where Incurred Losses = Paid Losses + Outstanding Reserves – Recoveries (for the 3 years)  
  
Excel: =(Paid + Outstanding - Recoveries)/Earned\_Premium\*100  
  
Tip: Use earned premium for the same period as the losses.

## Facultative Share Calculations

Accepted Premium = Gross Premium × Accepted Share %  
Accepted Liability = TSI × Accepted Share %  
Loss Ratio (accepted share) = (Your Incurred Losses ÷ Your Earned Premium) × 100

## Worked Example

TSI = KES 500,000,000  
Premium = KES 1,250,000  
  
Rate % = (1,250,000 ÷ 500,000,000) × 100 = 0.25%  
Rate ‰ = (1,250,000 ÷ 500,000,000) × 1000 = 2.5‰  
  
Given Rate % = 0.25% and TSI = 500,000,000:  
Premium = 500,000,000 × 0.25% = KES 1,250,000  
  
If during the year:  
Paid = KES 300,000  
Outstanding = KES 100,000  
Recoveries = KES 50,000  
Earned Premium = KES 1,000,000  
  
Loss Ratio = (300,000 + 100,000 − 50,000) / 1,000,000 × 100 = 35%  
  
Remember:

TSI (Total Sum Insured), decide gross vs net (after brokerage, taxes, levies) and be consistent, keep units straight (%, ‰), for multi-currency placements, compute in the original currency, then convert to KES using <https://www.oanda.com/currency-converter/>.