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INTRODUCTION TO REINSURANCE

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INTRODUCTION TO REINSURANCE

FIRST EDITION

INTRODUCTION TO REINSURANCE

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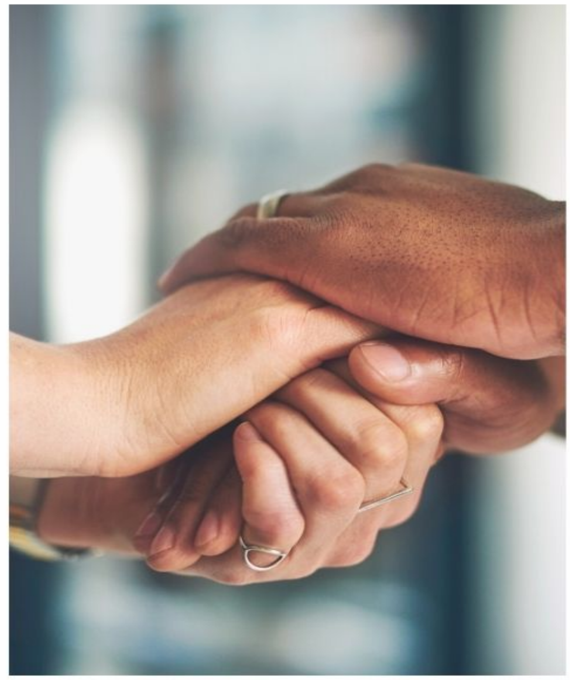

PREFACE

Reinsurance is a unique subject to explore, but it is a theoretically and technically challenging insurance business. This e-book will provide an overview of the fundamentals of reinsurance for people who are unfamiliar with the subject, making it easier to grasp the concept. Before delving into more advanced reinsurance theory and calculations, a newcomer to the industry should have a firm grasp of the basics of reinsurance.

Teaching insurance is never an easy process, and publishing an ebook on reinsurance is no exception. The collaboration between senior lecturer who expert in insurance curriculum and experienced lecturers who have served insurance industry had contributed to the well-rounded balance content in this e-book.

Reinsurance is a complicated business, but hopefully this brief e-book can help the reader better comprehend it at foundation level.

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HISTORY OF REINSURANCE

In the early days, traders and merchant who shipped their goods by sea were among the first to recognize the need for insurance. The cargo during the voyage are exposed risk such as cargo damage, weather perils and piracy. All of these dangers pose a hazard and result in financial loss to the merchant.

As a result of this increased awareness of possible loss during shipment, traders begin to recognize that the burden of loss may be reduced by distributing risk between themselves.

The earliest documented reinsurance contract can be traced back in July 1370, written in Latin and was affected in Genoa when the insurance contract cover a freight shipment from Cadiz, Spain, to Sluis, Flanders.

Due to the hazardous nature of the voyage, the insurer transferred the majority of the risk to a second insurer, which in return the second insurer cover the risk and agreed to paid the claims.

This constituted a real reinsurance contract between the insurer and the reinsurer without the owner of the cargo having any contractual connection with the reinsurer and The first reinsurance company was established in 1852 in Germany and it was called as “Colongne Reinsurance Company”

THE ESTABLISHEMENT OF REINSURANCE BUSINESS

The earliest mention of an Excess of Loss reinsurance policy on a small scale may be traced back to 1889. It develops in parallel with the evolution of motor insurance in 1896, which is when the first automobile insurance policy was issued.

Growth in this type of reinsurance was primarily a result of the growth of motor transportation when insurers began to notice an increase in demand for third party liability vehicle insurance starting in 1920.

Greater indemnity limits were needed as awards to third parties as per the court order and these greater indemnity limits encouraged the market to purchase this type of reinsurance.

REINSURANCEPEDIA

- **Outward Reinsurance Placement.**

Is a process where insurance company seeks for reinsurance coverage.

- **Inward Reinsurance Placement**

Is a process where insurance company write accept other insurance company's risk cede to them.

Let us first define who is involved in a reinsurance contract before proceeding with further elaboration. Let's take a look at an insurance contract to get the idea. In an insurance contract, the parties in the contract are the insured and the insurer. The idea is identical when it comes to reinsurance contracts, but the terms for the parties are known as "reinsured" and "reinsurer".

REINSURED

Reinsured is an insurance company; they are sometimes known as an insurer. Reinsured is an insurance company that purchases reinsurance coverage hence they are the party being covered in the reinsurance contract.

Other words that are being used include "Cedent" or "cedant" or "ceding company,"which refers to an insurance company that has agreed to transfer its liability to a reinsurer.

Cedent/cedant/ceding company is defined in the MII book as the insurance company that seeks protection from the reinsurance market. This protection seeking activity is know as outward reinsurance.

Another term that is commonly used is "direct insurer" and "primary insurer" which also refer to reinsured.

REINSURER

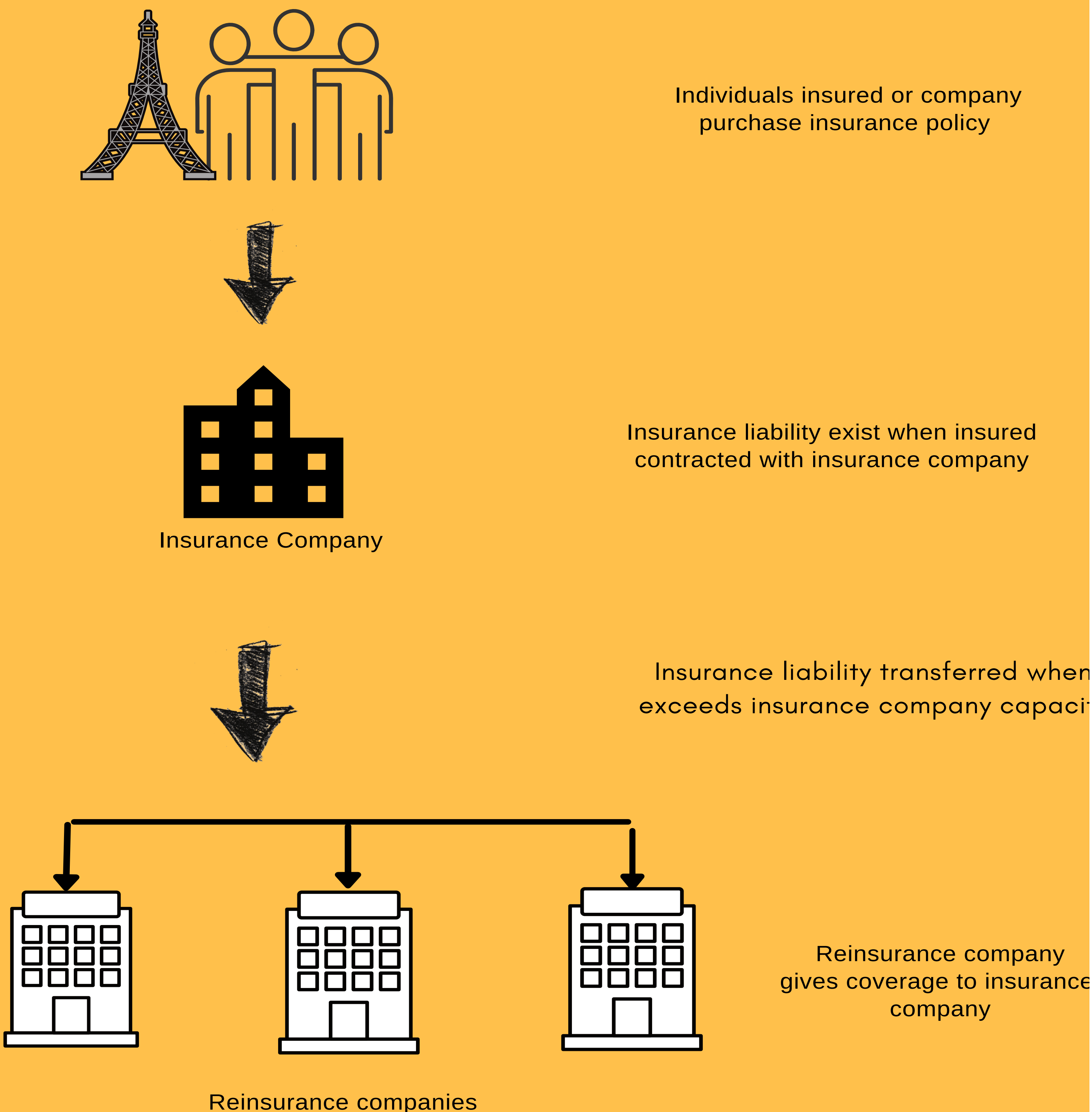
Reinsurer is the insurance company to the insurer. In other word, reinsurer is the reinsurance company which accepts the risk which another insurance company would like to insure with them.

In practice, reinsurers can be an independent reinsurance company or an insurance company. Reinsurance company is a professional reinsurer, they solely write reinsurance business without having insured as their direct client.

Meanwhile insurance companies that accept business from other insurance companies can also be called as reinsurer or inward reinsurance. Meaning to say, an insurance company can also act as a reinsurer.

Bennet (2004) defines reinsurer as the reinsurance company that only writes business with insurance companies of primary insurance companies that also writes inward reinsurance contracts for other insurers.

HOW REINSURANCE WORKS



You have see the illustration of how reinsurance works. Now its the time to understand it in detail. It is important that we create a working definition of the term "reinsurance" right from the start. Robert Kiln, in his book "Reinsurance in Practice" describe reinsurance as:

"The business of insuring an insurance company or underwriter against suffering from excessive losses from their insurance operations; and allowing an insurance company or underwriter to layoff or pass on part of their liability to other insurer on a given insurance which they have accepted."

REINSURANCE EASY DEFINITION

“Reinsurance is insurance that an insurance company purchases from another insurance company to insulate itself from the risk of a major claims event.”

Based on the definition by Robert Kiln, it is clear that the function of reinsurance is to pass the risk from insurer to reinsurer to protect insurer from excessive losses and we can see that the need for reinsurance is generally identical to the need for insurance. An insurance company that predominantly serves a specific geographic region may be overexposed in the event of a localized catastrophic event such as flood, earthquake, tsunami, explosion, bush fire and the like.

An insurer that covers the specific risks may be overwhelmed by the catastrophic event which can lead to large losses. When an insurer has reinsurance protection, it will reduce their financial losses meaning, the insurer will not burden paying the large losses alone because they have reinsurance behind them who share the portion of losses.

Reinsurance also acts as a risk management mechanism for insurance companies, whereby reinsurance provides its insurance company client with the capacity to control risk in the case of catastrophic occurrences such as natural disasters. Reinsurance can also act as a risk-sharing mechanism for insurers, whereby the insurer will cede the risk to reinsurer based on a portion or share (this is usually referred to the "reinsurance share").

sk can also be shared based on a predetermined loss limit. surers will share or cede the risk to reinsurance when the risks as exceeded their retention. These usually involve large risk and tastrophic risk in nature which can cause huge financial loss if surers retain themselves alone. These frequently involve large nd catastrophic risks, which can result in huge financial losses if e insurer retains the risk alone.

In terms of reinsurance premium, it will always follow the rule of thumb- the higher the risk, the higher the premium.

Is reinsurance offered for free or at a cost?

There is no such thing as free in this world, and reinsurance is no exception. The price for the reinsurance is called the "reinsurance premium". Insurers pay a reinsurance firm a portion of the premiums they earn from policyholders. In exchange, reinsurance companies will agree to cover losses above certain thresholds or based on certain portions.

?

What can be covered in an reinsurance program? All hazards that might result in financial loss can be cover. The following are the examples of catastrophic risk that usually require reinsurance protection:

Earthquake in China, New Zealand, Japan, California, Central & South America, Southern Europe

Hurricane in US, Caribbean, Latin America; Cyclone in Australia; Typhoon in Japan. Windstorm in Northern Europe, hailstorm in Sydney

Flood in Australia, the UK, Europe and South East Asia.

Some example of large risk that require reinsurance protection are:

- Nuclear plant in Japan
- Skyscrapers like Kuala Lumpur Convention Centre (KLCC)
- Sugar crops in Mauritius
- Travelling sports teams to Olympic Tokyo 2020.

Quick Facts

- Reinsurance is the Global Mechanism for managing the financial risk of known and unknown physical hazards.
- Reinsurance does not reduce losses, but it makes it easier for insurance to carry material consequences.

Kashiwazaki-Kariwa Nuclear Power Plant.

Tokyo Electric Power Co.'s (TEPCO) Kashiwazaki-Kariwa plant in Japan is currently the world's largest nuclear power plant, with a net capacity of 7,965MW. Kashiwazaki-Kariwa has seven boiling water reactors (BWR) with a gross installed capacity of 8,212MW. However, the plant have been out of service since 2011.

Source:https://www.power-technology.com/features/feature-

The needs for reinsurance.

The reinsurance business has evolved into one of the most important risk management instruments. With large individual risks and natural catastrophe risks are distributed throughout the world, reinsurance can help a company reduce its potential loss. The need for reinsurance is growing as a result of a wide spectrum of disasters from human, social, financial, economic to environmental consequences.

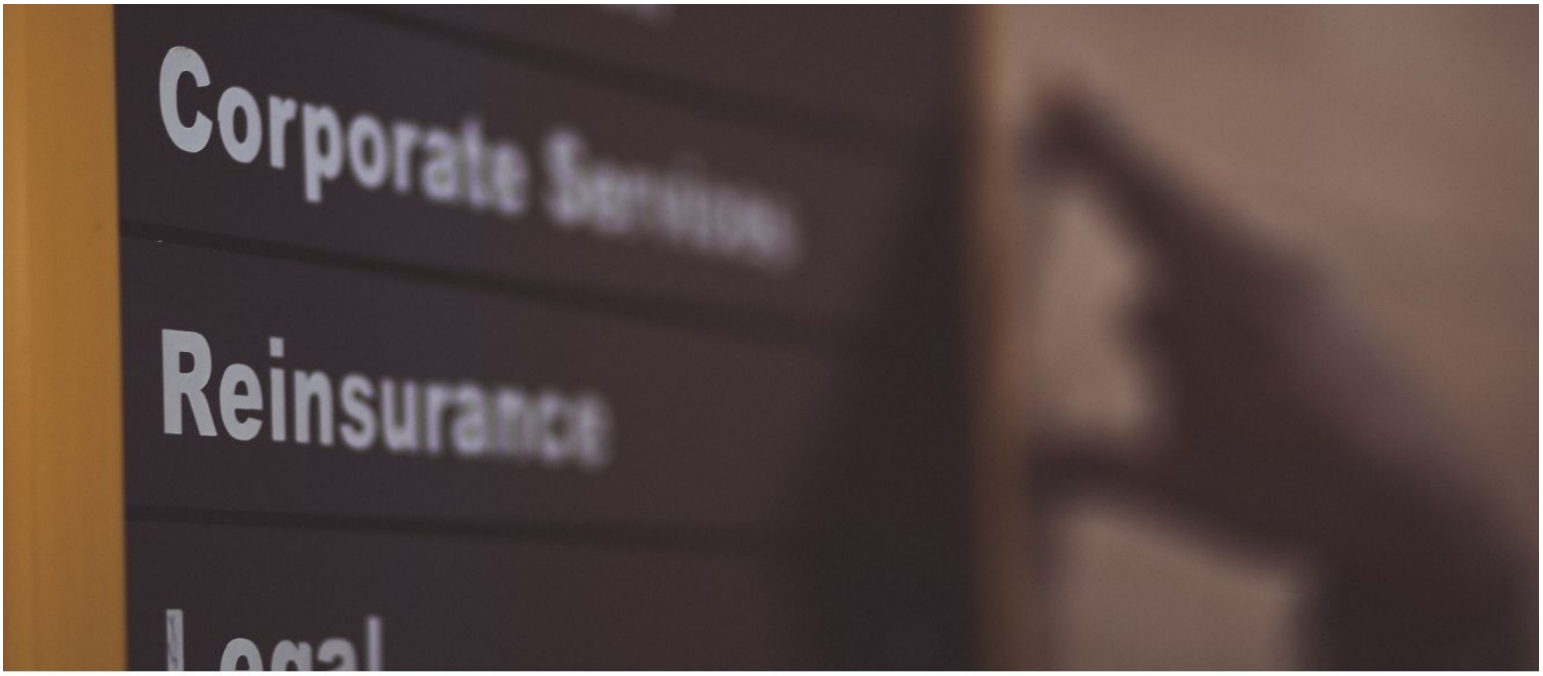
The need for reinsurance is on the rise because there is demand especially from the financial institutions. The financial capability or capital of all sorts of financial institutions (banks and insurance firms) is limited. Due to this constraint, it is not wise to overexpose the insurance company by writing large sum insured risk and keeping the whole exposure independently. Even a partial loss, rather than a whole loss, may lead the insurer to become insolvent. As a result, the financial exposure that is greater than what the firm can retain must be spread to another risk carrier known as the reinsurer.

Principle governing reinsurance contract.

- Insurable interest - Basically cedent has insurable interest over the subject matter by reason of which they would be financially impacted by loss, or may incur liability in respect thereof so he can insure that subject-matter.

- Utmost Good Faiths - Like insurance contracts, all reinsurance contracts are subject to principle of utmost good faith.

- Indemnity - All reinsurance contracts are contracts of indemnit. Reinsurers is restricted to the actual loss suffered by the ceding company, subject to the limit of the reinsurance contract.



Comparison of insurance and reinsurance.

When it comes to financial security, insurance and reinsurance are two options to consider. Even though they have a similar notion, they are utilized completely differently and by different people. Below is the comparison table of insurance vs reinsurance.

INSURANCE	REINSURANCE
Insurer enters into contracts with individuals or organizations whose primary business is not insurance.	Contracts for reinsurance are made between insurers and reinsurers.
The subject matter of insurance is a property, person or a legal liability	Under insurance contracts, the ceding company's contractual liabilities are th subject matter of reinsurance.
Not all contracts are subject to the principle of indemnity for example: Personal accident, sickness and life.	All contracts are subject to the principl of indemnity.
Most insurance business is transacted locally except for Marine and aviation insurance.	Reinsurance business is generally transacted internationally.

PURPOSE OF REINSURANCE

“Reinsurance does not reduce losses, but it makes it easier for insurance to carry material consequences.”

There are numerous reasons why reinsurance is used. Reinsurance is mostly taken up by insurance companies or underwriters to mitigate the financial implication from the hazards they have agreed to insure. Insurers who want to safeguard their bottom line from volatility might consider purchasing reinsurance. In what ways does reinsurance assist insurers specifically? How can the insurer make it work for the company? Let’s take a look at some of the ways in which insurance companies use reinsurance to keep operations operating smoothly.

1. RISK TRANSFER

Reinsurance was designed to safeguard insurance companies against risks they could not carry on their own, to protect them from the financial consequences of risk, and to put them back in the position they were in immediately before the loss occurred.

Losses can occur in several ways and it can cost millions or billion of dollars. Without reinsurance, an insurer's financial resources would be pushed to the breaking point. By transferring the potential risk to reinsurance, the insurer is protected, and likewise, because insurers want to reduce their financial exposure in the case of a claim or loss, they transfer some of their risk to reinsurers.

2. CAPACITY ON INDIVIDUAL RISK

Reinsurance will help the insurer to protect its business position while also taking advantage of growth prospects in new business. Reinsurance helps them feel more confident about taking on more insurance business underwriting responsibilities.

The insurer may have a financial limit on the size of its individual risk. By purchasing reinsurance, the insurer can increase the underwriting capacity to accept businesses of higher sum insured.

Example:

Generally, the insurer's financial capacity will enable the insurer to write simple occupational risk (i.e.: residential, office and restaurants). With reinsurance capacity, the insurer can write larger, complex and large risk (i.e.: power plant, airports)

3. CAPACITY FOR MORE PREMIUM VOLUME.

Reinsurance allows insurers to increase the number of policies written while reducing the maximum potential loss to a uniform amount. As more risks are written insurer gets more premium and more the policies have been issued. This will subsequently help insurer to better predicting chances of loss and ultimately more accuracy in determining equitable pricing.

With their diverse books of business, reinsurers can provide the technical expertise cedents need to enter new lines of coverage or to write risks in areas the underwriter is not familiar with. This helps cedents to broaden their book of business, expand their underwriting opportunities and thus increase their volume of premium.

4. STABILIZATION OF RESULT

In this age of globalization, every industry appears volatile, including the insurance business. As the cedant's desires for successful underwriting and financial performance grow, they are exposed to various volatility such as fluctuation in claims, currency exchange, economics, climate changes, social forces and etcetera.

Reinsurance can help stabilize them over time and protect the cedant's from substantial, unforeseen losses. Reinsurance serves to control the cedant's exposure to individual risks and accumulated losses, which helps to stabilize the cedant's profit and loss volatility.

Reinsurance will also function by limiting the cedant's maximum loss because it absorbs a portion of the loss. In a word, reinsurance helps to minimize the burden of the cedant in paying the amount of loss despite the fact that it does not avoid the loss.

5. FINANCING

In insurance industry, the insurer always have desire to raise capital in order to fulfill the insurer's solvency requirement or solvency margin. With Reinsurance namely on proportional basis will shares the acquisition expenses and at times, reinsurer will reward the insurer with profit commissions based on the profitability of the reinsurance program. On the side note, fast reimbursement from reinsurers will avoid long term impact on the insurer’s investments.

During periods of strong premium growth, reinsurance relieves the load on the cedent's surplus. Premiums paid to reinsurers are not included in the cedent's unearned premium reserve, which is shown on the financial statement as a liability. As a result, the cedent's premium-to-surplus ratio decreases, and its capacity to write business improves.

6. CATASTROPHIC LOSS PROTECTION

Reinsurance provides protection from the financial consequences of a single catastrophic event causing multiple losses. When a catastrophic loss occurs, the insurer's financial stability might be severely impacted. Depending on the type of reinsurance bought, the insurer's financial impact can be reduced

Exposure to natural disasters, such as the flooding that occurred in Thailand and the earthquake that occurred in Japan, puts an insurer's financial integrity at risk. Reinsurance protects the cedent against a single catastrophic loss or a series of huge losses, depending on the circumstances. Reinsurance is important because it provides protection against casualty losses in which numerous losses may be engaged in a single occurrence.

7. EXPLORE NEW PRODUCTS

When an insurer expands into new products or markets, it may be exposed to higher risks that are difficult to predict. The knowledge and expertise of reinsurers in the areas of pricing, product design, marketing, and target business locations offer the insurer with the assurance of dependability as well as a risk sharing venue to the insurer. In addition, when an insurer enters a new product market, the insurer's reputation as a market player enhances which helps instill confidence when they are in an unfamiliar region.

TUTORIAL

1. All the incidences below are of catastrophic nature. Which of the following is a man-made catastrophic incident?

a) Riot

b) Tsunami

c) Earthquake

D) Volcanic eruption

2. Which of the following is not the purpose of reinsurance

a) Risk transfer

b) Capacity

c) Stabilization of underwriting result

d) Compulsory cession by industry regulation

3. Which of the following statements is false?

a) Reinsurance contracts are between insurer and reinsurers.

b) Subject matter of reinsurance is the financial obligation of insurer to the insured

c) All reinsurance contracts are subject to principle of indemnity

d) Reinsurance business is only transacted internationally

4. Which of the following is the objective of the reinsurance programme?

a) Selection of reinsurers

b) Produce steady underwriting results from year to year

c) A higher automatic capacity will be useful to cut

d) To show good reputation in international markets

5. One of the requirements of the reinsurance program is to cover for catastrophic losses. Which of the following is not considered a catastrophic event.

a) War

b) Flood

c) Earthquake

d) Crash of passenger aircraft

6. Reinsurance programme can protect or improve solvency and solvency margins:

- True
- False

7. The need for reinsurance arises due as insurance companies have limited financial capacity or capital.

- True
- False

8. Reinsurance is a contract between an individual insured and reinsurance company.

- True
- False

9. One of the functions of reinsurance is to limit the underwriting capacity to accept business within smaller sums insured.

- True
- False

10. Reinsurance can assist in stabilizing volatility of profit and loss of the insurer by controlling exposures on individual risk and accumulated losses

- True
- False

REVISION

1. Interpret the concept of “doctrine of privity” in reinsurance contracts. (2 marks)

2. Distinguish the features of “insurance” and “reinsurance”. (8 marks)

3. Determine **FOUR** (4) underlying principles applied in a reinsurance contract.
(8 marks)

4. Describe the functions of reinsurance.
(8 marks)

CASE STUDY

The aftermath of explosions in Tianjin, China, in 2015. The New York Times described the blasts as a man-made disaster that caused $1.1 billion in damage. photo by: Ng Han Guan (Associated Press)

Chinese insurers to settle over $1.5 billion Tianjin blast claims

27TH SEPTEMBER 2017 - AUTHOR: STEVE EVANS

"On 12 August 2015, a series of explosions had happened at a container storage station at the Port of Tianjin, China. According to Swiss Re, the Tianjin blast event is so significant that it is the third largest man-made insurance and reinsurance industry loss ever recorded"

QUESTION:

i. Analyze the statement above to determine the nature of loss. (1 mark)

ii. Determine the purpose of reinsurance in dealing with the above incident. (4 marks)

INTERACTIVE QUIZ

SCAN ME

HEY STUDENTS!

Scan this QR code to attempt the quiz.

CHAPTER 2
FACULTATIVE REINSURANCE

A reinsurance contract is a written instrument that formalizes the relationship between direct insurance companies (cedants) and reinsurers. In practice, the contract conditions, as well as international custom and usage in reinsurance transactions, tend to take precedence over any applicable legislation or jurisprudence.

There are two types of reinsurance:

Facultative – refer to the individual reinsurance of large or hazardous single risks

Treaty – refer to contract that automatically accepts a large number like risks

TYPES AND METHODS OF REINSURANCE

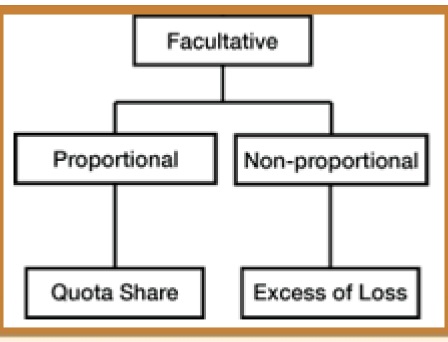
The term "facultative reinsurance" refers to a type of reinsurance in which both the insurer (or cedant) and the reinsurer have the "faculty" or option to cede and accept the business in question, respectively. Facultative reinsurance is typically used for single-risk scenarios that are defined and detailed separately.

As a result, these terms capture the essence of facultative reinsurance: the insurer's ability to choose whether or not to cede a transaction and which reinsurer to provide the risk to. The reinsurer, according to the same idea, has the authority to accept or reject the transaction offered.

The first type of reinsurance to emerge in the market was facultative reinsurance, in which each risk the cedant desired to reinsure was sold to the reinsurer as a single transaction or on a case-by-case basis. The proposal, acceptance, and consequent contract are required in facultative reinsurance for each risk that the ceding business wishes to reinsure. To put it another way, the ceding business negotiates a unique reinsurance deal for each risk or policy it reinsures, while the reinsurer is not obligated to accept any of the bids.

In a facultative reinsurance contract for a single individual risk, the insurer and potential reinsurer have the option of entering into the contract or not. The risk's insurer can choose whether or not to offer the risk to the reinsurer, and the reinsurer can accept or reject the offer, and if accepted, on what terms. An insurer may require treaty or facultative reinsurance to cover the majority of the risks secured for a variety of reasons. Treaty or automatic capacity reinsurance may also be required. While facultative reinsurance may be required if there are high-value risks or hazards that are not covered by the treaty but are less common than those that require treaty capacity, it is not always necessary.

TYPES OF FACULTATIVE REINSURANCE



The advantages of facultative reinsurance

- Due to the nature of risks being considered individually, reinsurers can set a suitable rate for the actual risk concerned, without having to consider the overall portfolio of risk
- Facultative reinsurance allows the insurer to have a competitive edge within its target segment
- There is freedom for both the insurer and the reinsurer to choose the type of risks they want in their portfolio
- Insurers may benefit from specific knowledge of the facultative reinsurer with regard to the nature and potential of the risk
- Exposure to an insurer's treaty reinsurance could be protected by facultative reinsurance of specific risks for better overall results and lower reinsurance cost in the long run
- Both parties can build a long-term relationship with an opportunity for the reinsurer to understand the insurer's underwriting methods and the insurer to plan their areas of business with the backing of the reinsurer
- A successful facultative relationship may lead to the insurer offering the reinsurer a share on its treaty programme

REINSURANCEPEDIA

Any assessment of benefits and drawbacks is open to interpretation according to on the viewpoint used, as what may appear to be a benefit to the reinsurer may prove to be a hindrance to the insurer.

REINSURANCEPEDIA

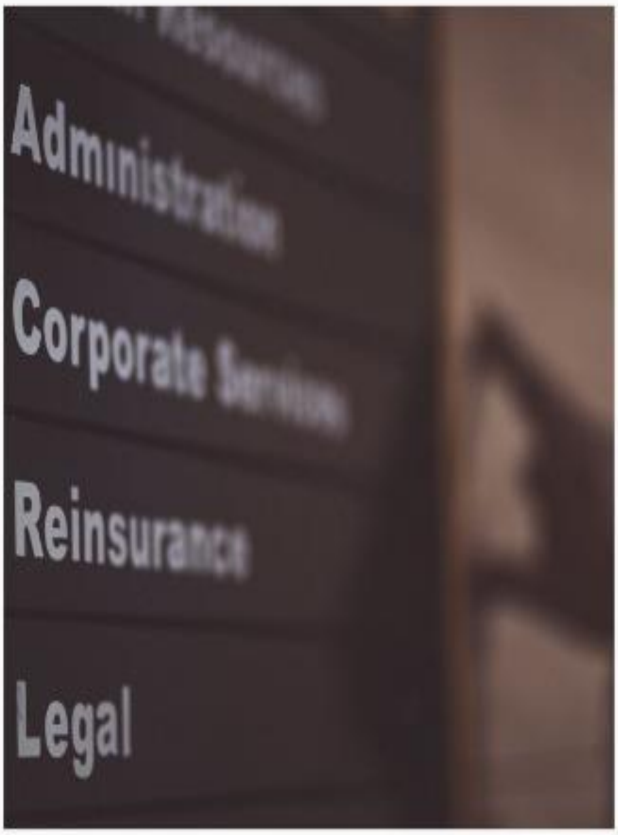
In recent years, the growth of the facultative company has been connected to the growing scale of risks in both technological and financial terms, as well as the large concentration of values in narrow areas.

The disadvantages of facultative reinsurance

- Because reinsurer acceptance is based on risk-to-risk, the insurer can never be confident that the facultative reinsurance will be placed. This uncertainty may hinder its capacity to procure new risks
- The administrative cost of facultative reinsurance is substantially higher than that of treaty reinsurance
- The insurer would normally have to give the reinsurer full details of its underwriting information, which could be a problem if the reinsurer is also a competitor
- The insurer would normally have to give the reinsurer full details of its underwriting information, which could be a problem if the reinsurer is also a competitor

REINSURANCEPEDIA

The reinsurer could potentially exert undue influence over the insurer's underwriting by requesting a better risk offer or influencing their appraisal of the premium on the initial risk;



TUTORIAL

1) Describe facultative reinsurance.

[4 mark]

2) State **THREE (3)** advantages and disadvantages of facultative reinsurance.

[6 marks]

3) State **FIVE (5)** uses of facultative reinsurance.

[10 marks]

CHAPTER 3
TREATY REINSURANCE

REINSURANCEPEDIA

The true rationale for reinsurance under an obligatory treaty is to provide the insurer with a set of benefits for expanding its business relationships because it relieves the insurer of the enormous burden of finding and arranging reinsurance for each accepted risk.

Treaty reinsurance is defined as an agreement between the insurer and the reinsurer to cede a fixed amount of their business to the reinsurer, with the reinsurer agreeing to accept the entire ceded amount within the terms and restrictions of the treaty wording, which is agreed upon in advance. This allows the insurer to place the risk with the reinsurer without the chance of it being refused or only accepted on an individual basis, which would otherwise impede the insurer's operations.

Treaty reinsurance allows insurers to simplify their reinsurance process and give the insurer a security ‘blanket’ in the form of an automatic capacity for it to accept risks.

Treaty reinsurance is distinguished by the fact that once reinsurance conditions for a specific type of operation have been agreed upon, the insurer is obligated to cede them and the reinsurer is required to accept them.

A new acceptance is not required for each new piece of business in treaty reinsurance because it has already been agreed upon under the treaty conditions. Each risk is accepted without the need to declare it explicitly. Furthermore, even before the reinsurer is advised of the danger, the treaty automatically covers it.

The period of cover of a treaty does not need to coincide with the period of cover of the policies included in it because, by incorporating all policies arranged by the insurer over a specific period (generally one year), it maintains reinsurance protection at least until the expiration of the in-force insurances or until the termination of the treaty itself; it may even continue to protect for many years after the period of active risk transfer has ended.

Both parties must submit a complete and accurate description of the enterprise that is the treaty's subject matter. Any inaccuracy before, during, or after it takes effect could produce an unclear scenario that can only be resolved in theory through cancellation.

ADVANTAGES OF TREATY REINSURANCE

REINSURANCEPEDIA

Reinsurance accepted under reciprocity agreements minimizes the outflow of foreign exchange caused by reinsurance ceded to international reinsurers at the national level.

This strategy of acquiring business allows insurers to participate in risks that are not located in their own geographic area. This allows them to get closer to other nations' operational patterns

- The accounting process is simplified by employing periodic approaches, such as accounting by quarter instead of individual hazards
- Because there are a significant number of homogeneous risks involved, it is easy to use information technology for data analysis and storage
- The reinsured receives a contribution towards cost for proportional treaties in the form of ceding commissions, and if the business is very profitable, it may also receive profit commission
- The reinsurance process is faster and easier than facultative reinsurance

DISADVANTAGES OF TREATY REINSURANCE

- Both parties cannot pick and choose which risks to reinsure because they are bound by a long-term contract;
- Both parties must build a degree of trust because the treaty cannot be easily cancelled, and this sometimes requires effort on both parties to learn more about the other party to the treaty
- The insurer may lose out on profitable small risk premiums because it cannot choose not to reinsure any particular good risk, which it might have otherwise preferred to keep for itself

REINSURANCEPEDIA

Insurers must exercise extreme caution in the agreements they enter into and should avoid becoming overly involved in this type of business; it can significantly increase their administration costs, as they must establish a new system of control in addition to their lack of experience in dealing with various types of foreign exchange.

TUTORIAL

1) Explain treaty reinsurance and its uses.

[4 marks]

2) Determine **THREE (3)** advantages and disadvantages of treaty reinsurance.

[6 marks]

3) Distinguish between facultative reinsurance and treaty reinsurance.

[10 marks]

CHAPTER 4
RETAKAFUL

Takaful refers to an arrangement based on mutual assistance in which takaful participants agree to contribute to a common fund that provides mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of a pre-agreed event or events.

Takaful, like traditional insurance, protects and indemnifies individuals and corporations against personal exposure as well as loss or damage to their property caused by covered risks.

SHARIAH COMPLIANT

It is a Shariah-compliant (within the teachings of Islam) alternative to traditional insurance that has addressed the key Shariah non-compliant features of *gharar* (uncertainty), *maysir* (gambling), and *riba* (interest), as described below.

In Arabic, the word *tabarru* denotes 'gift, contribution, or donation.' As a result, non-Shariah features are eliminated from a contract when the premium is turned into a gift that will be utilized to aid other policyholders in times of need, resulting in a Takaful contract.

Retakaful is a takaful cover agreed by a takaful operator with a second takaful operator on the risks of the takaful fund it manages, totally or partly, under Section 2 of the Islamic Financial Services Act 2013. Retakaful is defined as takaful for a takaful company, similar to reinsurance.

INFO:

Takaful Company pays an agreed sum (premium) to the Retakaful Company in return for the Retakaful Company providing security for the assurance that the Takaful Company is protected against adverse risks.

Apart from resolving non-Shariah factors, Retakaful's goal and operations are comparable to those of traditional reinsurance. Spreading and sharing, profit maximization, business growth, larger market share, capital relief, and better management of solvency concerns are all part of this.

The fundamental principle of a reinsurance the arrangement is set out in the contract when the insurer cedes a risk on a proportional or nonproportional basis.

Similarly, the fundamental principles of retakaful are also governed by contract, but this contract between the insurer takaful company) and the reinsurer retakaful company) has to adhere to core Shari'ah principles and adopt a specific financial model

MALAYSIAN RE

MALAYSIAN REINSURANCE BERHAD

Retakaful operators that operate in the Malaysian market?

Munich RE

Swiss Re

TUTORIAL

1) Explain retakaful and retrotakaful.

[4 marks]

2) Describe **THREE (3)** element of shariah compliant in retakaful contract.

[6 marks]

3) Compare between reinsurance and retakaful.

[10 marks]

ABOUT THE AUTHOR

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