REINSURANCE BY SHORT-TERM REINSURERS IN SOUTH AFRICA

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Abstract

The short-term reinsurance process usually involves three parties, namely the insurer, the reinsurer and the original policyholder, as the insurer cedes a part of the covered risk of the policyholder to the reinsurer. This research however addresses the perceptions of reinsurers regarding their reinsurance activities, where the reinsurer sells reinsurance to other insurance entities (viz. insurers and reinsurers), as well as buys reinsurance from other insurance entities. The crux of short-term reinsurance is therefore mutually loss sharing between the various insurance entities. The objective of this research focuses on the improvement of financial decision-making regarding the reinsurance operations of the reinsurers. To achieve this objective a literature study was undertaken to provide adequate background to compile a questionnaire for the empirical survey. The primary study embodies the perceptions of the South African short-term reinsurers regarding the following aspects: the various reasons why reinsurance occurs; the contracts / methods of reinsurance; the bases / forms of reinsurance; and the factors which determine the retention levels of a reinsurer. South Africa is classified as a developing economy, is a member of the BRICS countries and has an emerging market economy. The empirical results should therefore also be valuable to other countries which are classified similarly.

Keywords: Bases / Forms of Reinsurance, Contracts / Methods of Reinsurance, Need for and Uses of Reinsurance, Non-proportional Reinsurance, Proportional Reinsurance, Retention Level of Short-term Reinsurers

1. INTRODUCTION AND OBJECTIVE OF RESEARCH

Reinsurance encompasses three parties, viz. the short-term insurer, the reinsurer and the original policyholder, when the insurer partially cedes the covered risk of the policyholder to the reinsurer (Diacon & Carter, 1988:213-215). The reinsurer accepts that part of the risk in exchange for a portion of the premium as compensation. The original policyholder is however not a party to a reinsurance contract, because the short-term insurer is still liable to the policyholder regardless of whether reinsurance takes place or not (Diacon & Carter, 1988:214).

The perceptions of the short-term insurer and the reinsurer concerning reinsurance may differ as they may hold opposing views about reinsurance. The perceptions of the short-term insurers in South Africa regarding reinsurance were already investigated in a previous paper (Du Plessis *et al.*, 2010:210-218). The current research however addresses the perceptions of the short-term *re*insurers in South Africa concerning their reinsurance operations.

The reinsurance activities of a reinsurer can be classified in two ways. A short-term reinsurer may either *sell* reinsurance to another *insurance entity* (viz. an insurer or a reinsurer) when the other insurance entity cedes a part of its risk to the reinsurer. On the other hand can a short-term reinsurer *buy* reinsurance from another insurance entity for the risks which the reinsurer covers. It is therefore obvious that mutually loss sharing forms the crux of reinsurance as a reinsurer sells and/or buys reinsurance involving other insurance entities. The sharing of the risks of insurance entities amongst themselves is therefore taking place during reinsurance.

The *objective* of this research embodies the improvement of financial decision-making concerning the reinsurance activities of short-term reinsurers. A literature study was initially undertaken to provide an adequate basis to compile a questionnaire for the empirical study. The latter consists of an opinion survey where the following aspects are addressed:

- The various reasons why reinsurance occurs,
- The contracts / methods of reinsurance applied,
- The bases / forms of reinsurance used, as well as
- The factors which determine the retention levels of a short-term reinsurer.

The empirical study provides the perceptions of the South African short-term reinsurers concerning the four preceding aspects. As South Africa has a developing economy, while it is classified as an emerging market economy and is a member of the BRICS countries, the empirical results should also be valuable to other countries which are classified similarly. The following section pays attention to the needs for and uses of reinsurance.

2. THE NEED FOR AND USES OF REINSURANCE

There are various reasons why the short-term insurance industry employs reinsurance. When a *large individual risk* is underwritten, reinsurance is usually applied to safeguard the indemnity of the client in the event of a large claim (Schwepcke, 2004:20). Taking the law of large numbers into consideration, the aggregate claims cost of an insurance portfolio with a large number of insurance policies tend to fluctuate less than an insurance portfolio with a small number of exposure units, diminishing the difference between the anticipated and actual results of an insurance portfolio as the number of insurance policies increases (Diacon & Carter, 1988:286). When an insurance entity has an insurance portfolio with a small number of policies, the application of reinsurance should therefore decrease the *fluctuation of the aggregate claims cost in a particular period* as the fluctuations are shared amongst the insurance entities.

A *single detrimental event* (such as a hail storm) may lead to numerous claims from various policyholders (Evans, 1999:177). To mitigate the risk of such events, an insurance entity may obtain reinsurance to spread the financial impact between various insurance institutions. Detrimental occurrences may also happen during *a particular period* and insurance entities may reinsure against the accumulation of these risks.

Insurance companies sometimes want to underwrite risks which are actually too large for their underwriting capacity. By employing reinsurance, these insurance entities may obtain *underwriting flexibility and capacity* which enables them to extend their underwriting business, while stabilising their underwriting results (Shiu, 2011:483; Thomas & Cao, 2000:71). Professional reinsurers are often experts concerning specialized classes of insurance and can provide technical assistance to other insurance entities. When insurance entities need to access the *expertise* of these classes of insurance, they can link up with these reinsurers by obtaining reinsurance from them (Powell & Sommer, 2007; Schwepcke, 2004:20). It may happen from time to time that *basic probabilities may fluctuate* due to diseases or other global occurrences (such as war or natural disasters) (Diacon & Carter, 1988:213). The application of reinsurance may then spread the detrimental impact of such events amongst various insurance entities.

Reinsurance may also be obtained by an underwriter to maintain and improve its *solvency* (Gürses, 2010:119). The *solvency margin* is often employed in the insurance industry by determining the shareholders' interest of an underwriter in relation to its annual net premium income (Diacon & Carter, 1988:216). As the annual net premium income represents the difference between the annual gross premium income and the annual reinsurance premiums paid to other insurance entities, the annual net premium income can be reduced by increasing the reinsurance premiums. It is logic that when all the other aspects remain the same, an underwriter's solvency margin will improve when the annual reinsurance premiums increase. The following section addresses the various reinsurance contracts (methods) which can be concluded in the insurance industry.

3. REINSURANCE CONTRACTS / METHODS

Reinsurance contracts / methods are legally binding agreements between a reinsurer and either another reinsurer or an insurer to obtain the benefits linked to the need for and uses of reinsurance. There are various types of reinsurance contracts available which can be employed by reinsurers, viz. the treaty reinsurance, facultative reinsurance, facultative-obligatory reinsurance and reinsurance pools. These types of contracts will be addressed in the following sections.

3.1. Treaty reinsurance

A treaty reinsurance contract is usually in operation for a limited period of time. The reinsurer automatically accepts the risks which fall within the terms of the contract, while another insurance entity agrees to cede the related risks (Schwepcke, 2004:98). It must be emphasised that the insurance entities which accept the risks operate blind and that the basic principle of utmost good faith actually prevails between the various parties to a treaty reinsurance contract.

3.2. Facultative reinsurance

A facultative reinsurance contract is concluded between a reinsurer and other insurance entities when the party to which the risk is offered, may exercise judgement concerning the risk which the other party wants to cede (Mason & Pfeifer, 1996:641; Schwepcke, 2004:99). The quality and extent of the information provided to the reinsurer is therefore of prime importance (Greene & Trieschmann, 1988:130; McDonald, 2008:14). It is also obvious that the party to which the risk is offered, will need time to consider the following three options, viz. the acceptance of the entire risk, the rejection of the entire risk, or the partial acceptance of the risk offered by the other party. It should be clear that this type of reinsurance contract will be popular when the subject matter of insurance is too large to be addressed by other types of reinsurance contracts.

3.3. Facultative-obligatory reinsurance

This type of reinsurance contract can be quite complicated and is not always popular in the reinsurance market. When the reinsurer and another insurance entity conclude a facultative-obligatory contract, they stipulate the risks which the reinsurance contract will address during a particular period of time. The ceding insurance entity however holds the option to cede the risks that it decides to transfer to the other party, while the latter is actually bound to accept the risks as long as they fall within the terms of the reinsurance contract (Cipra, 2010:260).

3.4. Reinsurance pools

Reinsurers may sometimes need a wider spread of their risks, especially when their risk portfolios focus mainly on particular types of risks, on specific classes of insurance and/or on certain geographic areas (Thomas & Cao, 2000:71). The reinsurers can

then construct a reinsurance pool and cede a particular portion of their risk portfolio to the pool. Different types of risks can thereafter be ceded back by the reinsurance pool to its members in agreed proportions (Cipra, 2010:260).

The administration of a reinsurance pool can be managed by a separate reinsurer or by one of the members of the reinsurance pool. It should however be emphasised that the possibility exists that a member of a reinsurance pool may not adhere to utmost good faith by ceding poorer risks to the pool than the other members. The various bases / forms of reinsurance which can be employed in the different reinsurance contracts receive attention in the following sections.

4. BASES / FORMS OF REINSURANCE

The five bases / forms of reinsurance can be divided into two categories, viz. the proportional and non-proportional reinsurance (Carter, 1979:70-73). *Proportional* reinsurance occurs when a reinsurer receives a particular percentage of the premium from the other insurance entity, bears the same percentage of the associated risk and pays the same percentage of any losses which may occur due to the risk involved (Dorfman, 1998:362; Gray & Pitts, 2012:221). Proportional reinsurance consists of two reinsurance bases, namely the quota share basis and the surplus basis.

The percentage of the premium which the reinsurer receives from the other insurance entity, the percentage of the associated risk that the reinsurer bears and the percentage of any losses which the reinsurer pays as a result of the risk involved, do not correspond when *non-proportional* reinsurance takes place (Diacon & Carter, 1988:219-220). This category of reinsurance embodies three bases of reinsurance, viz. the excess of loss basis, the excess of loss ratio basis and the stop loss basis. These five bases of reinsurance mentioned will be discussed in the next sections.

4.1. Quota share basis

The *same* percentage (for example 30%) is used to determine the premiums which the reinsurer receives, to determine the reinsurer's proportion of the associated risk and to determine the reinsurer's proportion of any losses due to the risks involved for *every* individual insurance policy which falls within the terms of this proportional reinsurance contract (Ramos, 2013:7). The administration of this reinsurance basis is therefore easy and the reinsurer automatically becomes liable when a loss occurs due to an individual risk.

It goes without saying that small risks which the ceding company could have retained for its own account, will also be ceded in this way. This reinsurance basis is often preferred by an insurance entity when entering into a class of insurance which is new to the enterprise, when an insurance entity was recently established and needs support of other players in the insurance industry, or when an insurance entity wants to improve its solvency margin (Diacon & Carter, 1988:220).

4.2. Surplus basis

According to this basis of proportional reinsurance, ceding of the particular risks to other insurance entities *only* occurs when the *sum insured* of a particular subject matter exceeds a retention limit stipulated in the reinsurance contract (Ladoucette & Teugels, 2006:631). Small risks will therefore not be ceded, while an insurance entity can control its exposure to large risks by ceding a proportion of the risks to other players in the insurance industry.

It should be noted that when ceding takes place, the characteristics of proportional reinsurance are still applied. Each time when ceding takes place, the percentage of the risk ceded of that *particular* subject matter, will be the same as the percentage of the premiums of that particular subject matter which the reinsurer will receive, and the same percentage will be used to calculate the reinsurer's proportion of any loss due to that particular risk. It should be clear that the administrative expenses of the surplus basis may be higher than that of the quota share basis due to more difficult record-keeping (Rejda, 1995:550).

4.3. Excess of loss basis

This non-proportional basis of reinsurance focuses on a *loss exceeding* a specified amount where an upper limit of liability is usually employed (Skipper, 1998:585). The excess of loss basis may be applicable to a per risk basis (for a particular subject matter) or to an event basis when many claims may occur due to a single event (such as a catastrophe) (Harrington & Niehaus, 1999:88; Williams *et al.*, 1998:459).

Various layers of reinsurance may be used for this reinsurance basis, for example the prime underwriter may be liable for a loss up to €1 million, when a loss exceeds €1 million up to €3 million, reinsurer A may be liable for the part of the loss exceeding €1 million while the prime underwriter will pay €1 million. In the case where a loss for instance exceeds €3 million, reinsurer B may be liable for the portion of the loss above €3 million, while the prime underwriter will pay €1 million and reinsurer A will contribute €2 million.

The excess of loss reinsurance basis is usually easy to administer. The prime underwriter who cedes the risk to the reinsurers often retains a larger proportion of the gross premium as he/she always has to pay the first part of a loss, while the reinsurers of the other layers of reinsurance will contribute to the loss when the amount of the loss exceeds particular retention levels. When the excess of loss reinsurance basis is applied together with a treaty reinsurance contract, it may protect an entire portfolio concerning a particular class or classes of insurance of the ceding company (Diacon & Carter, 1988:222).

4.4. Excess of loss ratio basis

The excess of loss ratio basis is a complicated non-proportional reinsurance basis to administer and needs a detailed discussion (Diacon & Carter, 1988:223 & 224). This basis emphases the *loss ratio* which embodies the claims of the ceding company as a percentage of the premiums earned. The reinsurance contract will be applicable for a stipulated period between the insurance entities involved. When the loss ratio specified in the reinsurance contract is reached, the reinsurer will start to contribute towards indemnifying the losses experienced by the ceding company and the ceding

company will at that point in time already experience an accumulated loss situation for the preceding part of the period mentioned in the reinsurance contract.

During the time that the reinsurer contributes towards indemnifying the losses experienced by the ceding company, the ceding company will still have to settle a portion of that losses. The accumulated contribution of the reinsurer will normally have an upper limit where after the ceding company will have to face the full extent of the losses incurred.

4.5. Stop loss basis

It is usually easy to administer this non-proportional reinsurance basis. According to this basis, the losses of the ceding company are accumulated during the period stipulated in the reinsurance contract (Carter, 1979:72; Diacon & Carter, 1988:223 & 292). When the accumulated losses reach a specified limit, the reinsurer is usually liable for all the losses of the ceding company during the remainder of the stipulated period.

4.6. Application of the bases of reinsurance

It should be clear from the preceding sections that the bases of reinsurance can be applied in the following situations:

- When *individual* risks are involved, the quota share basis, the surplus basis and the excess of loss on a per risk basis are the available alternatives which insurance entities can consider.
- Various losses which occur from *one event* can only be addressed by the excess of loss on an event basis, focusing mainly on catastrophe cover.
- When the *accumulation* of losses during a *period* is considered, two alternative bases are available for consideration, viz. the excess of loss ratio basis or the stop loss basis.

The research methodology which was applied to obtain the empirical results is explained in the next section.

5. RESEARCH METHODOLOGY

It was necessary to study secondary as well as primary data to achieve the *objective* of this research, viz. the improvement of financial decision-making concerning the reinsurance activities of short-term reinsurers. The secondary data was discussed in the preceding sections and it was employed to compile a questionnaire for the opinion survey to obtain primary data. Copies of the questionnaire, as well as copies of an invitation letter to participate, were sent to the seven registered professional reinsurers for short-term insurance according to the Financial Services Board in South Africa (Tau, 2013). After following up, all seven reinsurers participated in the empirical study.

Some of the questionnaire's questions used a five point Likert interval scale. As it was explicitly stated on the questionnaire that the five point Likert interval scale forms a continuum, the weighting of the answers was possible (Albright *et al.*, 2002:224-229 & 245). The answers of the respondents, which appear in Section 6, were weighted by assigning the weights shown in Table 1.

Table 1. The weights assigned to the answers of the respondents

Answers of the respondents		*Weights assigned*
Always	Extremely important	5
Very often	Highly important	4
Sometimes	Moderately important	3
Seldom	Little important	2
Never	Not important	1

The empirical results obtained through the empirical survey are depicted and discussed in the next section.

6. EMPIRICAL RESULTS

This section embodies the primary data which was obtained by the empirical survey. The four aspects which will be addressed in this section are as follows:

- The various reasons why reinsurance occurs,
- The contracts / methods of reinsurance applied by the reinsurers,
- The bases / forms of reinsurance used by the reinsurers, as well as
- The factors which determine the retention level of a reinsurer.

6.1. The various reasons why reinsurance occurs

Table 2 shows how often the seven South African reinsurers apply reinsurance due to various reasons.

Table 2. How often short-term reinsurers apply reinsurance for various reasons, based on the perceptions of the respondents

Used reinsurance due to the following reasons	*Always*	*Very often*	*Sometimes*	*Seldom*	*Never*
Protection against large *individual* losses	5	2			
Protection against fluctuations due to the *portfolio size*		4	2		1
Protection against aggregation of claims from *one event*	5	1	1		
Protection against the accumulation of claims in *one period*	3	3		1	
Providing underwriting flexibility and capacity	2	4	1		
Improvement of the enterprise's solvency margin	4		3		
Fluctuation in basic probabilities	2		3	2	
Obtaining technical assistance from insurers / other reinsurers	2	2	3		

It is interesting to note from Table 2 that each one of the seven reinsurers apply reinsurance either very often or always to obtain protection against large individual losses. The perceptions of the respondents concerning the other reasons why they are using reinsurance however differ. The perceptions of the respondents were weighted by applying the weights depicted in Table 1 and the weighted responses are shown in a declining order of frequency in the following table.

Table 3. Weighted responses on how often short-term reinsurers apply reinsurance due to the following reasons, in a declining order of frequency

Total weighted scores calculated	*Declining order of frequency*	*Used reinsurance due to the following reasons*	*Mean*	*Median*
33	1	Protection against large *individual* losses	4.71	5
32	2	Protection against aggregation of claims from *one event*	4.57	5
29	3	Improvement of the enterprise's solvency margin	4.14	5
29	3	Protection against the accumulation of claims in *one period*	4.14	4
29	3	Providing underwriting flexibility and capacity	4.14	4
27	6	Obtaining technical assistance from insurers / other reinsurers	3.86	4
23	7	Protection against fluctuations due to the *portfolio size*	3.29	4
23	7	Fluctuation in basic probabilities	3.29	3

The total weighted scores calculated in the preceding table indicate that reinsurers *most* often employ reinsurance to obtain protection from large individual losses. It appears from the preceding table that the reinsurers, *second* most often, apply reinsurance to obtain protection against the aggregation of claims due to one event. It is therefore clear that reinsurers pay special attention to large individual losses as well as the accumulation of losses from one event.

The following three reasons in a declining order of frequency according to Table 3 obtained the same total weighted score calculated. Two of these reasons address the operation of the reinsurers, viz. the improvement of the enterprise's solvency margin as well as providing the underwriting flexibility and capacity to the reinsurer, while the third reason has the protection against the accumulation of claims in one period in mind. The application of the contracts / methods of reinsurance by the respondents receives the necessary attention in the next section.

6.2. The contracts / methods of reinsurance applied by the reinsurers

How often the respondents apply the various reinsurance contracts/methods is depicted in Table 4.

It seems that the treaty reinsurance contracts and the facultative reinsurance contracts are very frequently applied by the respondents. To obtain a clear view of the empirical results, the perceptions of the respondents were weighted by means of the weights shown in Table 1. The weighted responses appear in a declining order of frequency in Table 5.

Table 4. How often short-term reinsurers use the various reinsurance contracts / methods, based on the perceptions of the respondents

Contracts / Methods	*Always*	*Very often*	*Sometimes*	*Seldom*	*Never*
Treaty reinsurance	3	3			1
Facultative reinsurance	2	2	1	1	1
Facultative-obligatory reinsurance		1	4		2
Reinsurance pools		1	1	2	3

Table 5. Weighted responses on how often short-term reinsurers uses the various reinsurance contracts / methods when applying reinsurance, in a declining order of frequency

Total weighted scores calculated	**Declining order of frequency**	**Reinsurance contracts / methods**	**Mean**	**Median**
28	1	Treaty reinsurance	4.00	4
24	2	Facultative reinsurance	3.43	4
18	3	Facultative-obligatory reinsurance	2.57	3
14	4	Reinsurance pools	2.00	2

The total weighted scores calculated according to the preceding table indicate that the treaty reinsurance contracts are *most* often applied by die respondents, while the facultative reinsurance contracts are *second* most often employed. The means and medians in the table above show that the facultative-obligatory reinsurance contracts and the reinsurance pools are not so often applied as the other two types of reinsurance contracts. Due attention is paid in the next section to the bases / forms of reinsurance which the respondents employ.

6.3. The bases / forms of reinsurance used by the reinsurers

In Table 6 appears the responses of the seven short-term reinsurers on how often they employ the various bases / forms of reinsurance.

Table 6. How often short-term reinsurers use the various reinsurance bases / forms, based on the perceptions of the respondents

Bases / Forms	*Always*	*Very often*	*Sometimes*	*Seldom*	*Never*
Quota share basis	3	2	1		1
Surplus basis		1	3		3
Excess of loss basis	5	2			
Excess of loss ratio basis		1	3		3
Stop loss basis	1	1	3		2

It seems at first sight that the excess of loss basis and the quota share basis are very often applied by the respondents. The weights shown in Table 1 were applied to determine the weighted responses which are depicted in a declining order of frequency in the following table.

Table 7. Weighted responses on how often short-term reinsurers uses the various reinsurance bases / forms when applying reinsurance, in a declining order of frequency

Total weighted score calculated	*Declining order of frequency*	*Reinsurance bases / forms*	*Mean*	*Median*
33	1	Excess of loss basis	4.71	5
27	2	Quota share basis	3.86	4
20	3	Stop loss basis	2.86	3
16	4	Surplus basis	2.29	3
16	4	Excess of loss ratio basis	2.29	3

The empirical results which appear in Table 7 indicate that the excess of loss basis is *most* often applied by the respondents. The quota share basis represents the reinsurance basis that is *second* most often used by the seven short-term reinsurers. Looking at the mean and median values in the preceding table, it is clear that the remaining reinsurance bases are not so often applied by the respondents as the excess of loss basis and the quota share basis. The determining factors of a reinsurer's retention level are addressed in the following section.

6.4. The factors which determine the retention level of a reinsurer.

The retention level of a reinsurer manifests itself in two manners, viz.:

- The *sum insured* of a subject matter, and
- The level of a *loss exceeding* a specified amount.

The *sum insured* of a subject matter is sometimes found when proportional reinsurance is employed, while the level of a *loss exceeding* a specific amount is occasionally stipulated in non-proportional reinsurance.

There are various factors, listed in Table 8, which impact on the retention level of a reinsurer. This particular table also shows the perceptions of the seven respondents concerning the importance of the various factors.

Table 8. The importance of various factors when short-term reinsurers determine their enterprise's retention level, based on the perceptions of the respondents

Factors which influence the retention level	*Extremely important*	*Highly important*	*Moderately important*	*Little important*	*Not important*
Solvency margin of the enterprise	5	1	1		
The attitude of the enterprise towards each particular class of insurance	1	5	1		
The prevailing reinsurance contracts of the enterprise	1	3	2	1	
The size of the enterprise's reinsurance portfolio(s)		3	4		
The expected underwriting results of the enterprise during the current financial year	3	3	1		
The required profitability level of the enterprise against the background of the associated risks over the long run	2	4	1		
The availability and costs of reinsurance due to a hard or soft insurance / reinsurance market	1	4	1		1

The perceptions of the seven short-term reinsurers in the preceding table were weighted by applying the information of Table 1. The weighted responses on the importance of the various factors which impact on the retention level of reinsurers appear in a declining order of importance in Table 9.

The seven determining factors for the retention level of a reinsurer in a declining order of importance are according to the preceding table as follows:

- The solvency margin of an enterprise is regarded by the respondents as the *most* important determining factor for the retention level of a reinsurer. The importance of the solvency margin was already discussed in Section 2 of this paper and it was highlighted that when all other aspects remain the same, a reinsurer's solvency margin will *improve* when the annual reinsurance premiums transferred by the reinsurer to other insurance entities *increase* as a reinsurer *decreases* its retention level.
- The *second* and *third* most important determining factors respectively address the expected underwriting results of the enterprise during the current financial year, as well as the required profitability level of the enterprise against the background of the associated risks over the long run. The explanation for both factors lies in the fact that reinsurers are actually *decreasing* their own underwriting results and profitability level when they *decrease* their retention levels.

Table 9. Weighted responses on the importance of various factors which determine the retention level of short-term reinsurers, in a declining order of importance

Total weighted scores calculated	*Declining order of importance*	*The importance of various factors when determining the retention level*	*Mean*	*Median*
32	1	Solvency margin of the enterprise	4.57	5
30	2	The expected underwriting results of the enterprise during the current financial year	4.29	4
29	3	The required profitability level of the enterprise against the background of the associated risks over the long run	4.14	4
28	4	The attitude of the enterprise towards each particular class of insurance	4.00	4
25	5	The availability and costs of reinsurance due to a hard or soft insurance / reinsurance market	3.57	4
25	5	The prevailing reinsurance contracts of the enterprise	3.57	4
24	7	The size of the enterprise's reinsurance portfolio(s)	3.43	3

• The *last* four determining factors in a declining order of importance pay attention to managerial decisions concerning:

- a positive or negative attitude of the enterprise towards particular classes of insurance,
- the availability and cost of reinsurance due to a hard or soft insurance / reinsurance market,
- the prevailing reinsurance contracts of the enterprise which must be governed until their expiry dates, and
- the large or small size of the enterprise's reinsurance portfolio(s) against the background of the law of large numbers.

7. CONCLUSIONS

The *objective* of this research encompasses the improvement of financial decision-making by short-term reinsurers regarding their reinsurance activities. A literature study was undertaken which was followed by an opinion survey to obtain primary data. The following main conclusions are therefore based on the literature study as well as the empirical survey:

(1) It was determined that reinsurers *most* often *employ reinsurance to obtain* protection from large individual losses, while it was concluded that the reinsurers *second* most often apply reinsurance to obtain protection against the aggregation of claims due to one event. It is therefore clear that the reinsurers are careful for the detrimental impact of large individual losses as well as the accumulation of losses from one event.

(2) The research indicated that the treaty reinsurance *contracts / methods* are *most* often applied by die respondents, while the facultative reinsurance contracts are *second* most often employed. It was also concluded that the facultative-obligatory reinsurance contracts and the reinsurance pools are not so often applied as the two first-mentioned types of reinsurance contracts.

(3) It was determined that the excess of loss *basis / form* is *most* often applied by the respondents. The quota share basis represents the reinsurance basis that is *second* most often used. It is clear that the remaining reinsurance bases are not so often applied by the reinsurers as the excess of loss basis and the quota share basis.

(4) The solvency margin of an enterprise is regarded by the reinsurers as the *most* important *determining factor for the retention level* of a reinsurer. The rationale of this conclusion is that a reinsurer's solvency margin will *improve* when the annual reinsurance premiums transferred by the reinsurer to other insurance entities *increase* as a reinsurer *decreases* its retention level.

The *second* and *third* most important *determining factors for the retention level* of a reinsurer respectively address the expected underwriting results of the enterprise during the current financial year, as well as the required profitability level of the enterprise against the background of the associated risks over the long run. Both factors can be explained by the fact that reinsurers are actually *decreasing* their own underwriting results and profitability level when they *decrease* their retention levels.

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