

Books for Bots - Volume 2: Reinsurance & Alternative Risk Transfer

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Reinsurance Treaty: The Complete Guide to Treaty Structures, Negotiation, and Risk Transfer (2026)

Source: <https://riskcoveragehub.com/reinsurance-treaty-complete-guide-2026/> Published: June 21, 2026

Updated October 6, 2026.

Direct Answer: A reinsurance treaty is a standing agreement: qualifying policies in a defined class cede automatically under fixed terms, without a separate submission for each risk. Facultative reinsurance is risk-by-risk—the reinsurer can decline. Carriers typically run treaty for the core book and facultative for outliers, large limits, or unusual exposures. Treaty pricing reflects structure (proportional vs excess-of-loss), retentions, model output, and renewal-season capacity—not a single “reinsurance rate” for the whole market.

This guide covers placement and pricing mechanics for treaty reinsurance: how programs are built, renewed, and repriced. For a deep comparison of quota share versus excess-of-loss forms, see Quota Share Reinsurance vs Excess of Loss (Treaty Structures). For market context on cedents and cycles, see the Reinsurance: The Complete Professional Guide (2026).

Treaty vs facultative: what actually changes at renewal

Under a treaty, the ceding company and reinsurer agree upfront on scope—class of business, territory, exclusions, retention, and share or layer limits. Premium and loss follow the contract for every risk that qualifies. Under facultative coverage, each risk (or each large piece of a risk) is presented, priced, and bound separately.

That distinction drives workflow. Treaty renewal is a portfolio negotiation: loss history, exposure growth, model revisions, and market tone for a whole account. Facultative is transactional—useful when a treaty does not fit, limits exceed treaty capacity, or underwriting needs a second opinion on one location or one policy.

Structural families (without re-laying the QS vs XoL floor plan)

Most carrier programs stack structures rather than choosing one label:

- **Proportional treaties** (quota share, surplus share) share premium and loss from the first dollar in a fixed or variable percentage. The reinsurer pays a **ceding commission** so the cedent is not funding acquisition cost on ceded premium.
- **Non-proportional treaties** pay only after the cedent absorbs a retention—per-risk excess, catastrophe excess, or aggregate stop-loss on the year’s result.

Surplus share behaves like quota share but the cession percentage rises as individual risks exceed the cedent’s retained line. Cat excess attaches on an event basis across many policies; aggregate covers cumulative poor experience. How those pieces interact on one balance sheet is the subject of the structures companion article—not repeated here.

Pricing levers cedents and reinsurers actually argue about

Proportional economics

Quota share pricing is often expressed as ceded premium minus ceding commission, sometimes with a profit commission tied to loss ratio. The reinsurer cares about combined ratio on the ceded slice; the cedent cares about net retention, statutory surplus relief, and whether commission covers distribution cost.

Excess-of-loss rate and burning cost

Non-proportional layers are commonly quoted as **rate on line** (premium divided by limit) or derived from burning-cost studies on historical losses above the attachment. Reinsurers also benchmark against modelled loss costs at the layer. A thin layer high in the tower can look inexpensive on rate-on-line until reinstatements and clustering are priced in.

Reinstatements

Catastrophe excess treaties usually allow one or more reinstatements of the limit after a paying event, for additional premium (often pro rata as to amount reinstated, sometimes with a multiplier). Unlimited reinstatements at 100% pro rata are rare on peak zones; negotiated reinstatement terms are a core pricing variable for hurricane and earthquake programs.

Hours clauses and event definition

Cat treaties define what counts as one “occurrence.” Hours clauses aggregate losses within a stated window (commonly 72 or 168 hours for windstorm). Wording shifts attachment behavior for complex storms and for secondary peril clustering. Event definition belongs in the placement memo, not only in the modelling appendix.

Placement mechanics: broker, slip, and follow-the-fortunes

Most treaty business runs through reinsurance intermediaries who assemble markets, circulate term sheets, and collect signing pages. The cedent’s actuarial and underwriting teams supply exposure data, treaty wordings, and pricing targets; reinsurers respond with capacity by layer or quota share percentage.

Follow-the-fortunes (and follow-the-settlements) language ties the reinsurer to the cedent’s claims handling within the treaty scope. Disputes usually turn on scope—what was ceded, what was excluded, and whether a

settlement was reasonable—not on whether the policyholder knew reinsurance existed.

Direct writers still face the same structural choices; they simply cede to affiliated reinsurers or external panels under the same calendar pressure as admitted carriers.

Renewal calendar: why January dominates property cat

Global property catastrophe programs still cluster on **1 January**. September rendezvous meetings (Monte Carlo, Baden-Baden) set negotiating tone; binding for 1/1 often finishes in late December. That calendar is administrative convention plus accounting alignment—not a legal requirement—but missing the window can mean running mismatched retentions until midyear.

Other common effective dates:

- **4/1** — Japan and other Asia-Pacific cat programs.
- **6/1** — Florida and Gulf hurricane-heavy books (state regulatory and wind-season timing).
- **7/1** — Australian cyclone and some regional property treaties.

When reinsurance costs jump at 1/1, primary carriers may file rate and form changes on their own schedules—policyholders can feel the pass-through months later. The mechanism linking reinsurance repricing to primary availability is laid out in *Hard Market vs Soft Market in Insurance* (2026).

Models, accumulation, and treaty design

Treaty buyers do not negotiate cat pricing without model output. Cedents supply geocoded exposures; reinsurers run independent views or accept broker aggregates. Model version changes, climate-informed peril assumptions, and secondary-peril loadings move attachment points and rate on line even when historical loss experience is quiet.

Portfolio management—PML control, zone caps, clash across lines—feeds treaty structure: where to place quota share for capacity, where to buy cat excess, and how many reinstatements the net account can afford. See *Catastrophe Portfolio Management: Accumulation Control, PML Management, and Reinsurance Design and Catastrophe Modeling: The Complete Guide to Cat Risk Assessment for Insurance Professionals* (2026). Model refresh and climate loading move attachment and rate on line even when paid losses are quiet.

Alternative capital and the 2026 cat bond tape

Insurance-linked securities sit alongside traditional treaty capacity. Artemis-tracked catastrophe bond issuance reached a first-half 2026 record of almost \$18 billion (about \$17.98 billion), above the prior H1 record set in 2025, with a record count of transactions in the first six months. That depth of collateralized capacity influences cat layer pricing at renewal—especially when traditional reinsurers compete with ILS funds for the same peak zones.

Parametric triggers and index-based structures are a different tool—payout tied to an index rather than indemnity adjustment—but they sit in the same capital stack conversation for peak peril. See *Parametric Insurance and Index-Based Risk Transfer* for how those instruments differ from indemnity treaties.

Casualty treaties (briefly)

Property cat dominates renewal headlines, but casualty carriers also buy excess-of-loss and aggregate treaties on general liability and auto. Social inflation and large verdict trends pressure those layers independently of hurricane models—same renewal mechanics, different loss development tail.

Flood, NFIP, and treaty boundaries

Federal flood for most commercial and residential risks still runs through the NFIP or private flood partners; it is not interchangeable with a property cat excess treaty on building values. FEMA's Risk Rating 2.0 has been fully in force since April 2023, with premiums driven by individual flood risk characteristics and statutory caps on annual increases for many existing policies. NFIP manual and WYO bulletins continue to update—check FEMA's Risk Rating 2.0 materials for current program rules, not treaty wordings.

Reinsurance treaties may still cover certain private flood or commercial property flood where written; the placement question is always what peril and policy form the treaty schedule admits.

What property owners and risk managers should watch

You rarely see treaty language on your certificate. You do see outcomes: higher deductibles, tighter sublimits, non-renewals in stressed zones, and excess placements when primary limits shrink. Limits and retentions on your policy still govern claim recovery before any reinsurance responds upstream.

State regulators and the NAIC continue to adjust credit-for-reinsurance and group supervision models; domicile rules affect which reinsurers qualify for treaty credit on your carrier's balance sheet. Check current model adoption through your state department of insurance or NAIC publications rather than assuming last year's approved list still applies.

Frequently Asked Questions

What is the difference between a reinsurance treaty and facultative reinsurance?

A treaty automatically covers defined qualifying business under pre-agreed terms. Facultative reinsurance is optional coverage purchased risk by risk, with the reinsurer free to decline. Carriers use treaties for scale and facultative for exceptions.

Why do most catastrophe treaties renew on January 1?

Global accounting, reporting, and decades of market practice align many property cat programs on a 1 January effective date. Negotiations intensify in the autumn rendezvous season; binding often completes in December. Regional peaks also use 6/1 and other dates.

What is a reinstatement premium?

After a catastrophe excess layer pays a loss, the limit may be partially or fully exhausted. A reinstatement premium restores some or all of that limit so a second event in the treaty period can still recover to the same layer, subject to the contract's reinstatement wording.

Does my policy name the reinsurers on a treaty?

Usually not. Your contract is with the primary insurer. Reinsurance is between the carrier and its reinsurers; it supports the carrier's solvency and capacity but does not create a direct claims relationship for you unless law

or a specific arrangement says otherwise.

How do catastrophe models change treaty price?

Reinsurers price layers from modelled loss distributions as well as experience. When models increase expected loss costs for your zones or construction types, rate on line rises or capacity shrinks even if your own loss history is clean.

Does record cat bond issuance mean cheaper property insurance?

Not automatically. More ILS capital can soften peak cat layers when investors compete for risk, but primary rates also reflect local regulation, litigation, expense, and net retention targets. Treaty relief is one input—not a straight pass-through to every policyholder.

Reinsurance: The Complete Professional Guide (2026)

Source: <https://riskcoveragehub.com/reinsurance-complete-professional-guide/> Published: March 17, 2026

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Reinsurance is cover bought by primary insurers to cap net catastrophe exposure and stretch underwriting capacity; its price and limits at the January and June renewals flow straight into primary property rates and eligibility. After the 2023 reinsurance shock, Florida and California primary markets remain tight in 2026 even while collateralized markets set issuance records.

Reinsurance is the infrastructure most policyholders never see—the contract layer where primary carriers cede premium and loss to professional reinsurers so they can write more business than surplus alone allows and survive single large events. You do not buy it directly, but it sets whether your carrier can stay in your county, how much wind or wildfire limit they can offer, and how fast they retreat after a bad year. The sections below map the transaction, treaty mechanics, global market rhythm, and the 2026 capital picture including catastrophe bonds.

Reinsurance fundamentals

A reinsurance placement is a contract between the cedent (primary carrier) and the reinsurer. The cedent pays a reinsurance premium; the reinsurer pays qualifying losses per the treaty wording. Privity runs cedent-to-reinsurer—the policyholder's claim is against the primary carrier, not the reinsurer, unless a rare cut-through endorsement applies. Carriers use reinsurance for four jobs: amplifying capacity, capping net catastrophe loss, smoothing earnings volatility, and trimming accumulation in one geography or line.

Treaty versus facultative

Treaty programs cover defined portfolios for a term; facultative covers one risk at a time when size or hazard sits outside treaty rules. Most regional property writers run both: treaties for the base book, facultatives for a trophy exposure or a limit breach.

Treaty structures carriers actually buy

Structure choice is economics, not vocabulary. Proportional treaties—quota share and surplus share—share premium and loss from dollar one; the reinsurer pays a ceding commission so the cedent is not underwater on

acquisition cost. Non-proportional excess-of-loss treaties pay only above a retention: per-risk XL for large single-policy fires or liability towers, catastrophe XL for storm or quake aggregates, aggregate stop-loss for the whole accident year.

Active cat zones add reinstatement premium mechanics on cat XL: once a layer is consumed, the cedent buys reinstatements or runs bare for the rest of the season. Sliding-scale commissions on proportional treaties reward profitable ceded books. For side-by-side quota share versus XL economics and aggregate stop-loss design, see *Quota Share Reinsurance vs Excess of Loss (Treaty Structures)* and the broader negotiation frame in *Reinsurance Treaty: The Complete Guide to Treaty Structures, Negotiation, and Risk Transfer* (2026).

Global market, renewals, and the post-2023 adjustment

Capacity concentrates in a handful of balance sheets: European groups (Munich Re, Swiss Re, Hannover Re, SCOR), Bermuda platforms (RenaissanceRe, Arch, Everest, Axis, and periodic new-company formations after major loss years), Lloyd's syndicates backed by the Central Fund, and U.S.-domiciled reinsurers. January 1 sets worldwide property-catastrophe pricing; June 1 remains the Florida hurricane checkpoint.

The January 2023 renewal was the hinge after cumulative 2017–2022 catastrophe losses, rising rates on collateral, reassessment of secondary perils, and Florida litigation drag. Market reports at the time cited roughly 30–50% increases on many U.S. cat XL programs and sharper moves on Florida-heavy layers, with some peak limits unavailable at any price. Primary carriers passed those costs through or exited—fueling the hard market policyholders still feel in 2026.

Renewals since have been selective rather than uniformly catastrophic: well-modeled, diversified cedents find capacity, while concentrated coastal wind, California wildfire, and litigation-heavy liability stacks remain expensive. Modeling quality and portfolio hygiene matter more each year; carriers align cat budgets to modeled PML and aggregation controls described in *Catastrophe Portfolio Management: Accumulation Control, PML Management, and Reinsurance Design*.

Catastrophe bonds and ILS in 2026

Collateralized reinsurance and cat bonds are no longer marginal. Artemis reported record first-half 2026 activity: about \$17.98 billion of issuance across 83 Rule 144A and private transactions, with the outstanding market near \$65.6 billion at June 30—roughly 7% above year-end 2025. Sponsors use bonds to place named peril layers with capital-markets investors while keeping traditional treaties for broader covers and servicing. Record supply has eased pricing on some layers but has not erased primary-market gaps where regulators, litigation, or concentration limit who can write at all. For trigger mechanics and index products adjacent to bonds, see *Parametric Insurance and Index-Based Risk Transfer: Automatic Payouts, Catastrophe Bonds, and the Future of Climate Risk Financing*.

What property owners and risk managers should track

Reinsurance is not abstract for large schedules of values. When your carrier's cat XL reprices, your renewal follows—sometimes with higher deductibles, per-location sublimits, or non-renewal. Physical climate trends continue to reprice both modeled and unmodeled peril; see *Climate Risk and Insurance Pricing in 2026: How Physical Hazards Are Repricing Every Line of Coverage*. On the liability side, social inflation still ripples into reinsurer appetite for high excess towers even when property cat dominates headlines.

Practical steps: ask your broker or carrier risk manager what retention and cat program changed at the last January renewal; confirm whether your limits rely on treaty capacity that was reduced or restructured; document mitigation and engineering that affects modeled loss; and treat reinsurance-driven non-renewals as a coverage event, not a personal underwriting snub—replacement markets in peak zones may be thinner and more expensive by design.

Frequently Asked Questions

What is reinsurance and why should policyholders understand it?

Reinsurance is insurance purchased by primary carriers to transfer portions of their risk to professional reinsurers. Policyholders should understand reinsurance because availability and cost of reinsurance directly determine what primary insurance is offered in catastrophe zones, at what price, and on what terms. When reinsurance rates spike—as at the January 2023 renewal, with roughly 30–50% increases on many U.S. catastrophe excess-of-loss programs—primary carriers must raise rates, tighten underwriting, or exit markets they cannot price. Florida and California property crises remain linked to that reinsurance shock, even as collateralized capacity from catastrophe bonds and ILS hit record levels in 2026.

What is the difference between proportional and non-proportional reinsurance?

Proportional (pro rata) reinsurance splits premiums and losses from the first dollar in a fixed percentage—quota share on every risk, surplus share when the share varies with risk size. The reinsurer pays a ceding commission for the cedent’s acquisition costs. Non-proportional excess-of-loss reinsurance pays only after losses exceed the cedent’s retention, up to the treaty limit—per-risk XL for large individual losses, catastrophe XL for event aggregates, and aggregate stop-loss for annual totals. Non-proportional treaties are usually cheaper on clean portfolios; proportional treaties amplify capacity and stabilize routine results.

How does the reinsurance cycle drive primary insurance market cycles?

Catastrophe losses erode reinsurer capital; at January and mid-year renewals reinsurers raise rates and cut limits; primary carriers absorb higher reinsurance costs; primary rates rise and capacity shrinks in peak zones; policyholders see non-renewals and FAIR Plan growth. When returns attract new money—Bermuda startups, sidecars, and record cat bond issuance—investable capacity expands and pricing pressure eases. The 2017–2022 loss streak drove the 2023 dislocation; primary markets in 2026 are still adjusting, with pricing better in some commercial lines but stubborn in Florida wind and California wildfire.

How do catastrophe bonds affect reinsurance capacity in 2026?

Catastrophe bonds move defined peril layers to capital markets alongside traditional reinsurance. Artemis tracked roughly \$17.98 billion of new Rule 144A and private issuance across 83 transactions in the first half of 2026, with the outstanding market near \$65.6 billion at June 30. That record ILS supply has backstopped some treaty panels and stabilized pricing on well-modeled layers, but it has not replaced broad treaty cover or fixed peak-zone primary market stress where attritional loss, litigation, and concentration still dominate.

What is the difference between treaty and facultative reinsurance?

Treaty reinsurance covers a portfolio under pre-agreed terms for a policy year—quota share, surplus, or excess-of-loss structures renewed on January 1 or June 1 cycles. Facultative reinsurance is risk-by-risk: the cedent negotiates cover for a single large or unusual exposure, often after the underwriting file is complete.

Treaties set baseline capacity and net retention; facultatives handle outliers, line-size breaches, and specialty hazards that fall outside treaty eligibility.

Related: More in Reinsurance. Back to Risk Coverage Hub.

FM Now Pays on the Trigger, Not the Loss: The Broker Conversation Before a Client Signs

Source: <https://riskcoveragehub.com/fm-parametric-trigger-payout-broker-conversation/> Published: October 19, 2026

On October 15, FM added three products to its alternative risk transfer suite: parametric insurance, structured risk financing, and captive cell arrangements. The headline for brokers is the first one. A parametric policy pays when a pre-agreed measurement says the event happened — a wind speed at a named station, a magnitude on the USGS feed, a river gauge at a set height. There is no adjustment, because there is nothing to adjust. The number was written into the contract before the storm had a name.

That changes the broker's job. The hard conversation about a parametric cover does not happen after a loss, in a dispute over what the damage is worth. It happens before the signature, over what the trigger should be — and a broker who cannot explain the difference between a payout and a loss settlement will have a confused client at exactly the moment the product is supposed to feel simple.

What FM actually added

FM framed all three products as complements to traditional property insurance, not replacements for it. The parametric cover pays when specified contractual triggers are met, with payments linked to agreed parameters rather than determined by an assessment of the loss incurred — the money is aimed at the immediate financial effects of a qualifying event. Structured risk solutions let a client share in the financial outcomes of its own insurance arrangement, with the potential for a premium return where loss experience is favorable. Captive cell arrangements offer captive-style risk financing — participation in the economics, retention of underwriting risk — without the cost, governance structure, and administrative burden of forming a standalone captive.

“Our clients have a wide range of risk management needs and goals,” said Laurel Rudnick, FM’s chief underwriting officer. “We’re building solutions that give them more flexibility, greater financial certainty and new ways to strengthen resilience over the long term.” FM noted that regulatory notifications have been or will be made to authorities, so availability may vary by jurisdiction — a detail worth setting expectations on before a multi-state client gets attached to a structure its hardest state cannot have yet.

How a parametric trigger works

The National Association of Insurance Commissioners describes parametric insurance as coverage that pays based on the magnitude of a specified event rather than the policyholder’s individually assessed loss. A parametric contract specifies three things: the trigger (the measured event and its threshold), the payment structure (what each level of severity pays), and the method or source used to verify that the trigger occurred. The measurements come from instruments, not opinions — anemometer readings for hurricane winds, epicenter magnitude as measured by the USGS for earthquakes, river and tidal gauges for flood.

Everything a client finds attractive about the product lives in that design. Because the trigger is objective and the payout is pre-agreed, there is no claim to document, no adjuster to schedule, no settlement to negotiate. Money moves on data. Everything a client can find disappointing about it lives there too — which is the conversation below.

The five things to say before a client signs

- 1. The payout is a number, not an estimate of your loss.** If the trigger fires at the contracted level, the client receives the contracted amount — whether the actual damage is twice that figure or half of it. That is not a defect; it is the entire mechanism. But a CFO who expects the check to reconcile against a loss run will read a shortfall as the insurer underpaying, when in fact the contract performed exactly as written.
- 2. Basis risk is the price of speed, and it runs both directions.** Basis risk is the gap between the index payout and the client's actual economic loss. The trigger can fire when damage is modest — a wind reading at the reference station exceeds the threshold while the client's own roofs come through fine. And it can fail to fire when damage is real — the station reads a few knots under the line while the client's street floods. The gauge is never at the client's loading dock. Tightening the trigger's geography and tying it to the mechanism that actually causes the client's losses shrinks the gap; it does not close it, and a broker who presents parametric as precision cover has set the client up to feel cheated by arithmetic.
- 3. This money is for the first thirty days, not the whole recovery.** Parametric proceeds are typically unrestricted in use — overtime, temporary space, emergency mitigation, the deductible on the traditional policy, the revenue hole while the indemnity claim is still being built. Its value is speed and certainty at the moment cash is tightest. Sold that way, it over-delivers. Sold as property cover, it disappoints.
- 4. The traditional policy still does the heavy lifting.** FM built these products to sit alongside its property coverage, and the indemnity program remains where the full loss gets made whole — slowly, with documentation, as always. The parametric layer fills the gaps indemnity handles worst: the deductible, the waiting period, the expenses no form quite covers. A client who trades indemnity limits for parametric limits has not modernized the program; they have hollowed it.
- 5. Document the loss anyway.** No adjuster will ask — and the client's accountants, lenders, and traditional carrier still will. The parametric check arriving without paperwork does not retire the paperwork. It removes the paperwork from the critical path, which is a different and better thing.

For the full mechanics of index-based structures — payout curves, exhaustion points, and how parametric triggers grew out of catastrophe bonds — see our explainer on parametric insurance and index-based risk transfer.

The other two doors FM opened

Structured risk is the quieter product. Instead of premium as a sunk cost, the client shares in the outcome: favorable loss experience can produce a premium return, subject to the agreed terms. It ties the cost of the program to the client's own performance — attractive to the well-run risk that believes its loss history is better than the market's pricing of it, and is willing to hold some of the downside of being wrong.

Captive cells lower a threshold that has kept mid-size organizations out of the captive market. Marsh's 2026 captive benchmarking counted \$79.1 billion in managed captive premium in 2025, with 118 new captive

formations, up from 92 the year before — growth that continued while commercial pricing was easing. A cell gives a client the economics of that market — retaining underwriting risk, sharing in favorable experience — inside the carrier’s existing structure, without standing up a regulated entity of its own. For the client who has “looked at a captive” three renewals in a row and never crossed the setup cost, the cell is the first version of the idea that fits in a renewal meeting. Our guide to what a captive is, who forms one, and who should not covers the questions to work through before that meeting.

Why now, in a softening market

The timing is the tell. Alternative risk structures used to be hard-market shelter — what clients reached for when conventional capacity priced them out. Aon’s Q1 2026 Global Insurance Market Overview found insureds maintaining strong interest in ART solutions even as commercial pricing eases, as a deliberate hedge against future market tightening. Clients are no longer buying flexibility because they have to. They are buying it while it is cheap, against the cycle turning.

That is the broker’s opening. A parametric layer, a structured program, a captive cell — none of these are renewal-line items a client comparison-shops on price. They are design decisions, made once, that shape every renewal after. The broker who can stand in front of a CFO and explain a trigger, a payout curve, and a basis-risk gap in plain sentences owns that design conversation. The October expansion means FM’s clients will be having it this renewal season — with whoever explains it first.

Captive Insurance: What a Captive Is, Who Forms One, and Who Should Not

Source: <https://riskcoveragehub.com/captive-insurance/> Published: October 16, 2026

What captive insurance is

A captive is an insurance company that exists to insure its owner. A business — or a group of businesses — forms and capitalizes a licensed insurer, usually in a jurisdiction whose laws are written for captives, and that insurer issues policies to the parent and takes on specified pieces of its risk. Premiums flow from the operating business into the captive, claims are paid out of the captive when covered losses occur, and money the captive does not pay out in claims remains the owner’s — held as the insurer’s reserves and surplus rather than spent into the commercial market. It is best understood not as a discount on insurance but as a change of machinery: instead of renting an insurer’s balance sheet, the business builds a small one of its own and keeps only the risks it is prepared to own. The risks a company is not prepared to own still get transferred — captives commonly buy reinsurance above the layer they retain, and many commercial coverages stay in the commercial market entirely. A captive typically takes a defined slice: a deductible layer, a specific line, or risks the market prices badly or will not write at all.

Who forms one, and why

The honest profile of a captive owner: a business large enough that insurance is a material, recurring cost; stable enough to have a loss history it more or less believes; and disciplined enough to run an insurance company, because that is literally the job it is taking on. The motivations are consistent. **Control** — the owner chooses the policy language, the claims handling, and which risks the captive writes, instead of accepting a market form. **Economics** — premiums paid for risks that run better than the market priced stay in the family, and the captive gains access to reinsurance pricing that only insurers can buy. **Coverage the market will not sell** — a captive

can write a narrow, well-understood risk the commercial market declines or prices out of reach. Groups of similar businesses sometimes form group captives to pool what none could efficiently hold alone, spreading fixed costs and volatility across members. What unites every sound reason is that the owner already has scale and predictability; the captive is a way to keep the benefit of both.

The honest scale threshold — who should not form one

Read plainly: a captive is not a small-shop product, and it is not a tax trick with an insurance policy wrapped around it. Forming one means capitalization up front, licensing, an annual audit, actuarial work, a captive manager, regulatory filings, and board-level governance of an actual regulated insurer, every year, whether claims cooperate or not. Those fixed costs do not shrink for a small premium base, which is why the arithmetic only begins to work for businesses whose insurance spend is large and steady. A small business that forms a captive to insure risks it cannot afford to lose has not transferred its risk at all — it has concentrated it, at additional expense, in a company it owns. Captives formed primarily for tax posture, with premiums set without regard to real risk, have drawn sustained regulatory challenge; the structure rewards genuine risk-bearing and punishes costume. If your insurance problem is that premiums feel high for the coverage you get, the market offers ordinary instruments first — higher deductibles, better loss control, cleaner risk presentation. A captive enters the conversation when those are exhausted and the premium volume is large enough to run an insurer on. Not before.

One scenario, composited

A regional logistics company with a large vehicle fleet spends heavily, year after year, on the first layer of its auto liability exposure — the frequent, predictable claims that come with running trucks every day. Its loss record on that layer is steadier than the market's pricing of it. The company forms a captive to take that layer: premiums for the predictable slice flow into its own insurer, claims on that layer are handled under its own discipline, and coverage above the layer is still bought commercially, where it belongs. In a good year the captive keeps most of the premium; the company has converted a retail purchase into a managed cost. Now the contrast: imagine the same company captiving its rare, severe exposure instead — the one catastrophic claim a decade. A single bad year would meet a thinly capitalized insurer owned by the very people who suffered the loss, and both balance sheets would take the blow at once. Predictable frequency is what captives digest well; severity belongs with someone else's capital. Choosing the wrong slice is how a sound tool produces an unsound result.

The one question to ask your broker

“Which of my risks are frequent and predictable enough that retaining them through a captive beats transferring them — and is my total premium volume large enough to run a regulated insurer on top of them?”

If the answer names specific layers and specific economics, the conversation is real. If it dwells on deductions and offshore addresses, you are being sold the costume. A captive should be the last step of a mature risk program, arrived at deliberately — not the first step of a sales pitch.

Related reading: Excess-of-loss layers, explained · How January reinsurance renewals set your commercial premiums

Nepal Signs a Cat Bond Mandate With the World Bank

Source: <https://riskcoveragehub.com/nepal-cat-bond-world-bank-mandate/> Published: October 15, 2026

Nepal has signed a mandate agreement with the World Bank to explore a parametric earthquake catastrophe bond — a deal that, if it reaches issuance, would let one of the world’s most disaster-prone countries draw funding quickly after a major quake, without waiting for loss adjustment or emergency appropriations.

Under the agreement, the World Bank Group Treasury will work with the Government of Nepal and market participants across the structuring and insurance-linked securities community to assess feasibility and potential structure. The World Bank describes the signing as “the beginning of a collaboration to assess how capital markets can support Nepal’s broader disaster risk management strategy.”

What is actually signed — and what is not

Precision matters here, because cat bond headlines tend to run ahead of cat bond facts. What exists today is a *mandate to explore*: a feasibility and structuring engagement. No bond has been issued, no trigger has been set, and no final size has been announced.

The shape under discussion comes from the World Bank’s earlier work on the project, reported by Artemis in July: a proposed US \$80 million to \$190 million of fully collateralised disaster risk financing, envisaged as a three-year parametric earthquake bond. Those are proposal parameters from the summer — a reasonable picture of the intended deal, not terms of a signed one. Nepal’s Council of Ministers approved signing the mandate earlier this month, and the Treasury-led assessment is the next step.

Why parametric, and why Nepal

A parametric bond pays on the measurement, not the damage assessment: if a quake exceeds agreed physical parameters — magnitude, location, depth — the money moves. For a government, that speed is the product. Disaster budgets fail in the gap between the event and the arrival of funds; a parametric structure is built to close that gap to days or weeks.

Nepal’s exposure needs little arguing. It sits on an active seismic zone, its building stock is vulnerable, and the World Bank flatly calls it one of the world’s most disaster-prone countries, with ongoing work across risk reduction, preparedness, and financial protection. Financial protection is the layer this mandate addresses: pre-arranged money, priced and placed before the ground moves.

The pattern worth watching

Sovereign cat bonds have become a standard tool in the World Bank’s disaster-finance kit, and each new mandate extends the map of where capital markets — not just reinsurer balance sheets — carry catastrophe risk. For the ILS market, an \$80–190 million parametric quake bond is a modest size and a meaningful signal: another sovereign buyer entering the market, another peril region getting a price.

If the mandate becomes an issuance, the details that matter will be the trigger design and the basis risk Nepal accepts in exchange for speed. We will cover it when the terms exist. Until then: a mandate is signed, the assessment is underway, and nothing has been sold yet.

SOURCES

- Artemis: “World Bank confirms signing of Nepal quake catastrophe bond mandate” (artemis.bm), including its July 2026 reporting on the proposed project parameters

Related reading

- Isaias by the Numbers: Four Estimates, Four Different Storms

How January Reinsurance Renewals Set Your Commercial Premiums

Source: <https://riskcoveragehub.com/how-january-reinsurance-renewals-set-commercial-premiums/>

Published: October 8, 2026

Every January 1, the global insurance industry resets a huge share of its reinsurance contracts — the treaties through which primary carriers buy their own protection. The pricing set in that renewal window flows down, over the following months, into the commercial premiums businesses pay. It doesn’t determine your rate line by line, but it sets the weather for the whole year.

Why Does January 1 Matter So Much?

Reinsurance treaties are typically annual contracts, and a disproportionate share of them — especially **property-catastrophe excess-of-loss treaties** — renew on January 1. That concentration exists for practical reasons: it aligns with carriers’ fiscal years, lets reinsurers assess a full year of loss data before repricing, and gathers the whole market (cedents, brokers, reinsurers) in one negotiating season.

The result is a genuine market event. In the final weeks of the year, brokers like Guy Carpenter and Howden run the placement process, reinsurers signal their appetite and pricing, and by mid-January the industry publishes renewal reports that everyone — from carrier CFOs to commercial brokers — reads as the year’s opening bid on risk pricing.

How Does Reinsurance Pricing Reach Your Premium?

The transmission chain has four links:

- **Treaty renewal (January 1).** Reinsurers price the treaties that protect primary carriers against large losses. When treaty pricing falls, a carrier’s cost of protection falls; when it rises, the cost rises.
- **Reinsurer pricing and terms.** It’s not only price — attachment points (where reinsurance starts paying), exclusions, and reinstatement terms all shift. Since the January 2023 renewals, for example, attachment points rose sharply and reinsurers’ share of catastrophe losses fell from about 20% (2022 and prior) to a new average of 12%, per Guy Carpenter — meaning primary carriers kept more of the loss themselves.
- **Primary carrier cost of capital.** A carrier’s reinsurance program is a major operating cost. Cheaper, broader reinsurance lowers the carrier’s cost of writing business; expensive or restricted reinsurance forces the carrier to hold more capital against the same risk, which must be funded through higher premiums or reduced capacity.
- **Commercial rates.** Months later, as primary policies renew through the year, the carrier’s adjusted cost structure shows up in quotes: more competitive pricing and broader appetite when reinsurance is cheap and plentiful; rate increases, higher deductibles, and non-renewals when it’s dear and scarce.

The mechanism differs by treaty type. Quota-share and surplus-share treaties share premium and losses proportionally, so their pricing moves more gently with the market. Excess-of-loss layers — the catastrophe protection that dominates January renewals — reprice sharply because they absorb the market’s biggest shocks. Provisions like reinstatement terms, aggregate stop-loss covers, and sliding-scale commissions all get renegotiated in the renewal window too, fine-tuning how much risk and profit each side keeps.

What Happened at the January 2026 Renewals?

The January 1, 2026 renewals were a buyer’s market for reinsurance — and therefore a tailwind for commercial buyers through 2026:

- Guy Carpenter’s global property-catastrophe rate-on-line index **fell 12%**, with the U.S. down 12%, Asia Pacific down 12%, and continental Europe down 15%. Portfolios that had suffered catastrophe losses were the exception: flat to up 30%, per the broker’s pre-renewal guidance.
- Howden reported risk-adjusted property-catastrophe pricing **down about 14.7%** globally, with U.S. programs commonly seeing 10–20% reductions and retrocession (reinsurance for reinsurers) down 16.5%.
- Retention levels stayed broadly stable, and many cedents used their savings to **buy more protection** — higher limits, broader coverage, new supplemental covers — rather than simply pocketing the difference.

The fundamentals behind the softening: Guy Carpenter projected 2025 global insured losses of \$121 billion, roughly 18% below the five-year inflation-adjusted average, while dedicated reinsurance capital was forecast to grow 9% in 2025 with another \$50 billion of capacity expected from 2025 through 2027. Two consecutive years of positive property experience gave reinsurers confidence to compete.

The softening continued at midyear: Guy Carpenter reported its global property-catastrophe rate-on-line index had declined about 16% at the July 2026 renewals.

Does Cheaper Reinsurance Mean Cheaper Premiums?

Not one-for-one — and this is the honest caveat. Reinsurance is one large cost component, but primary pricing also reflects local market conditions, the carrier’s underwriting strategy, and the individual risk’s own loss profile. Guy Carpenter’s own New Zealand market commentary put it plainly: declines in reinsurance rates do not directly translate into equivalent rate reductions for insurance buyers.

In practice, cheaper reinsurance shows up as **softer conditions at the margin**: more carriers quoting, broader coverage terms, lower deductibles, more willingness to write catastrophe-exposed risks. Marsh’s Q2 2026 data bears this out — U.S. property rates fell 13% as reinsurance savings worked through the system, while U.S. casualty rates kept rising 7% because reinsurance was never casualty’s binding constraint. Social inflation was.

What About the Other Renewal Seasons?

January 1 is the headline act, but it’s not the only one. **April 1** is the key renewal date for Japanese property-catastrophe treaties (aligned with Japan’s fiscal year), **June 1 and July 1** cover the Florida and U.S. wind season programs, and some casualty and specialty treaties renew throughout the year. Each window reprices a slice of the market — which is why the July 2026 midyear softening mattered as confirmation, not just repetition, of the January trend.

For the full mechanics of what gets negotiated at renewal, see the complete guide to reinsurance treaties, plus clash covers and common-account reinsurance for how multi-line events are protected. And for how all of this fits the market cycle, start with *Hard Market vs Soft Market in Insurance* (2026).

Clash Covers: When One Event Hits Multiple Treaties

Source: <https://riskcoveragehub.com/clash-covers-common-account-reinsurance-explained/> Published: October 1, 2026

Updated October 6, 2026.

Direct Answer: A clash cover is excess-of-loss reinsurance that responds when a single event produces losses across more than one line of business or more than one underlying treaty — the “clash” of several claims hitting at once. It typically sits above the cedent’s catastrophe excess-of-loss program on a common-account basis, meaning it aggregates what the per-occurrence treaties pay and attaches when the combined event loss crosses its threshold. Hours clauses (usually 72, 168, or 504 hours) define what counts as “one event.” If your reinsurance manager talks about “the clash tower,” they mean the layer that catches whatever a single catastrophe scatters across the whole book.

Most reinsurance is organized by line, but catastrophes do not respect those drawers. A major windstorm damages buildings (property), strands vessels and cargo (marine), and triggers lawsuits over failed structures (liability) — one storm, three treaties, three retentions before anything pays. The clash cover exists for exactly this geometry: one event, many lines, one recovery. For the underlying per-occurrence layers, see reinsurance treaty structures: quota share, surplus share, and excess of loss.

What a Clash Cover Is

A clash excess-of-loss treaty pays when the *sum* of losses from a single event, across specified lines of business or underlying treaties, exceeds a retention. The classic formulation: “\$25 million excess of \$25 million, common account, each and every loss occurrence.” Translation for the slip reader: add up everything this one event cost us across the covered lines; if the total passes \$25 million, the clash layer pays the next \$25 million.

The word “clash” is market slang for the collision — two or more large claims from one event landing on the cedent at the same time. Before clash covers existed, a cedent hit by a multi-line event collected (or failed to collect) under each treaty separately, absorbing each treaty’s retention. The clash layer converts several retentions into one: the event is measured once, in aggregate, and the cover responds to the total. It is reinsurance on the cedent’s *event aggregation* rather than on any single line’s results. The complete guide to reinsurance treaties places clash within the full excess-of-loss family.

Common-Account vs Per-Occurrence Structures

Two architectures dominate, and your slip will say which one you are reading. A **common-account** clash cover aggregates net retained losses across the scheduled lines and treaties: property cat XoL recoveries, marine losses, casualty claims — everything the event generated — are added together, and the clash layer attaches when the combined figure crosses the retention. The “account” is common because all lines share one measurement.

A **per-occurrence clash** is narrower: it typically sits over specific underlying excess treaties and responds when a single occurrence produces recoveries under more than one of them. Think of it as excess-of-loss on the underlying excess-of-loss recoveries. The distinction matters at claim time: common-account measures the cedent's gross event loss across lines, while per-occurrence measures what the underlying treaties already paid. Common-account is the broader, more valuable, and more expensive form — it catches lines that have no underlying treaty at all. When brokers assemble a January placement, the clash layer is often the last piece quoted because it depends on the whole tower beneath it; see how these pieces come together in the global reinsurance market at January renewal.

How Hours Clauses Define a Single Event

Everything about clash turns on one question: what counts as “one event”? A windstorm that batters a coastline for three days is plainly one event. A storm system that spawns tornadoes on Monday, floods on Wednesday, and a second landfall on Friday is genuinely ambiguous. The treaty answers with an **hours clause**: all losses occurring within a defined window — 72 hours for most windstorm, 168 hours for earthquake and flood in many wordings, 504 hours for some clash and casualty clash covers — are deemed one occurrence.

The 504-hour clause (21 days) is the clash market's signature. It exists because clash events are sprawling: a hurricane's wind damage on day one, the storm-surge marine losses on day two, the liability suits filed over the following weeks. A 72-hour clause would slice that reality into pieces and defeat the cover's purpose. The trade-off is real, though — a 21-day window can sweep in a genuinely separate second storm, and that ambiguity is where clash claims get disputed. Wordings therefore add “contiguous event” language: the losses must arise from the same atmospheric or seismic disturbance, not merely fall inside the clock. Cedents managing concentrated coastal portfolios feel this acutely, which is why clash placement is inseparable from catastrophe portfolio management and accumulation control.

Why Clash Sits Above Catastrophe XoL

Placement order is not accidental. The property catastrophe excess-of-loss tower handles the property line's peak exposures; the marine and casualty treaties handle theirs. Clash sits *above* them because its job starts where theirs end: it measures the event across all lines, including the retentions the cedent absorbed under each underlying treaty. A clash retention of \$25 million is deliberately set above the combined retentions of the underlying program, so the cover responds only to genuinely large multi-line events rather than to ordinary single-line volatility.

This stacking explains the pricing: low frequency, high severity — a decade claim-free, then \$25 million on one hurricane. Reinsurers price it on event-aggregation models and geographic concentration, not single-line loss history. In soft markets the layer is almost automatic; in hard markets it is among the first debated — and the most painful to lack when the wrong storm arrives. The underwriting cycle drives these retention decisions more than most cedents admit.

Worked Scenario — Windstorm Hits Three Books

Make it concrete. A regional carrier writes property, marine, and general liability across the Gulf Coast. Hurricane Marisol makes landfall as a Category 4. The loss picture, per line:

Property book: \$40 million of wind and surge damage to commercial risks. The property cat XoL attaches at \$15 million per occurrence: it pays \$25 million, and the cedent retains \$15 million.

Marine book: \$12 million — stranded yachts, damaged marina infrastructure, cargo caught in port. The marine excess treaty attaches at \$5 million: it pays \$7 million, and the cedent retains \$5 million.

Liability book: \$9 million — suits alleging negligent maintenance of a waterfront structure that collapsed, plus business-interruption claims with liability allegations. The casualty clash/working layer attaches at \$4 million: it pays \$5 million, and the cedent retains \$4 million.

Without clash, the cedent absorbs $\$15\text{M} + \$5\text{M} + \$4\text{M} = \text{\$24 million}$ of retentions from one storm, collecting \$37 million from three separate treaties. Now add the clash cover: \$25 million excess of \$25 million, common account, 504-hour clause. The common-account event loss is the cedent's total retained-plus-recovered figure the wording defines — on a gross-loss basis, \$61 million. That clears the \$25 million retention, so the clash layer pays **\$25 million** (its full limit; the event loss exceeds retention plus limit). The cedent's net event cost collapses from \$24 million toward the clash retention structure, depending on the exact net-loss definition in the wording.

The lesson the numbers teach: retentions are per-treaty, but the storm is per-event. Clash is the only layer in the program measured the way the catastrophe actually happened. Risk managers who model only per-line retentions understate their true event retention by exactly the gap the clash cover fills — a point the fundamentals of reinsurance return to when explaining why program design starts from the event, not the line.

Clash Cover vs Umbrella Liability

The names confuse people because both sit “above” other covers, but they protect different things. An **umbrella liability** policy sits above the cedent's — or the policyholder's — *liability* limits: it pays third-party liability claims that exhaust underlying general liability, auto liability, or employer's liability. It is a liability product, measured claim by claim.

A **clash cover** is a *reinsurance* product, measured event by event across lines. It can respond to property damage, marine losses, and liability claims together — lines an umbrella would never touch. The umbrella answers “what if one liability claim is enormous”; the clash cover answers “what if one event is enormous across everything we write.” A carrier can easily buy both: umbrella for the liability spike, clash for the multi-line catastrophe. They are complements, and the professional guide to reinsurance treats them as separate floors of the same building.

Placement Notes for the Slip Reader

When your renewal pack includes a clash quote, check four things: the **scheduled lines** aggregating into the common account; the **hours clause** — 72, 168, or 504 — and whether it requires a single disturbance or merely a time window; the **loss definition** — gross, net retained, or recoveries-based, since each produces a different attachment calculation; and **reinstatement** — what the second storm costs you after the first one pays.

Frequently Asked Questions

What is a clash cover in reinsurance?

A clash cover is excess-of-loss reinsurance that responds when a single event produces losses across more than one line of business or more than one underlying treaty. It aggregates the event's losses — typically on a common-account basis — and pays when the combined total exceeds its retention. It exists because real catastrophes strike multiple lines at once while most treaties are organized line by line.

What is the difference between common-account and per-occurrence clash structures?

A common-account clash cover adds up the cedent's losses across all scheduled lines from one event and attaches when that combined figure crosses the retention — it measures the event the way it happened. A per-occurrence clash sits over specific underlying excess treaties and responds based on what those treaties already paid. Common-account is broader and more expensive because it can catch lines with no underlying treaty at all.

How do hours clauses define a single event?

An hours clause deems all losses within a defined window — commonly 72 hours for windstorm, 168 for earthquake and flood, and 504 hours for clash covers — to be one occurrence. Clash wordings often add “contiguous event” language requiring the losses to arise from the same disturbance, not merely fall inside the clock. The clause exists because multi-line clash events unfold over days or weeks, and without it the event would be sliced into pieces the cover could not pay as one.

Why does clash cover sit above catastrophe excess-of-loss?

It sits above the cat XoL tower because its job starts where the line-specific treaties end: measuring the event across all lines, including the retentions the cedent absorbed under each underlying treaty. The clash retention is set above the combined underlying retentions so the cover responds only to genuinely large multi-line events. Pricing reflects low frequency and high severity — it may run claim-free for a decade, then pay a full limit on one storm.

How does a clash cover work when a windstorm hits property, marine, and liability books?

Each line's own treaty responds first: property cat XoL pays above its per-occurrence retention, marine excess above its own, casualty working layers above theirs — and the cedent absorbs each retention separately. The clash layer then measures the whole event on the common account: if the aggregated event loss crosses the clash retention, it pays the excess up to its limit. One storm, three treaties, three retentions — the clash cover converts them into a single event recovery.

What is the difference between clash cover and umbrella liability?

Umbrella liability sits above a policyholder's or cedent's liability limits and pays third-party liability claims that exhaust underlying liability policies, measured claim by claim. Clash cover is reinsurance measured event by event across lines — it can respond to property, marine, and liability losses together, which an umbrella never touches. They are complements: the umbrella answers the enormous single liability claim, the clash cover answers the enormous multi-line event.

Sliding-Scale and Profit Commissions

Source: <https://riskcoveragehub.com/sliding-scale-commissions-profit-commission-treaties/> Published: October 1, 2026

Updated October 6, 2026.

Direct Answer: A sliding-scale commission is a ceding commission on a proportional reinsurance treaty that moves up or down with the treaty's loss ratio — good underwriting years earn the cedent a higher commission, bad years earn less, within an agreed minimum and maximum. A profit commission is different: it is calculated after the treaty year closes and returns a share of the reinsurer's actual profit to the cedent. Both exist for the same reason — to align the cedent's and reinsurer's interests so the treaty's economics reward careful underwriting. If your placement slip shows a commission table instead of a single percentage, you are looking at a sliding scale.

Every proportional treaty carries a ceding commission: the reinsurer did not acquire, underwrite, or issue the business — the cedent paid agents, underwriters, and systems to do it. The commission reimburses those expenses and is the most negotiated economic term on a proportional slip. For the structures these commissions attach to, see reinsurance treaty structures: quota share, surplus share, and excess of loss.

What a Ceding Commission Is

When a cedent passes premium to a reinsurer under a quota share or surplus treaty, a slice of that premium comes straight back as the ceding commission. It is not a favor and not a discount — it is reimbursement. The cedent spent real money to originate and underwrite the book: producer commissions, underwriting salaries, policy issuance, premium collection, claims handling on the retained share. The reinsurer, which simply receives a share of a finished book, pays its share of those costs through the commission.

That 30% must cover the cedent's actual expense ratio — lean operators can live with less, high-expense producers cannot. The complete guide to reinsurance treaties places the commission in the overall treaty economics.

Fixed Commissions and Why They Break

The simplest treaty says "30% flat" — clean and predictable, but blind to performance. At a 55% loss ratio the reinsurer keeps a handsome margin the cedent might have shared; at 85% the reinsurer bleeds while still paying the full 30%, and the cedent has little treaty-driven reason to tighten underwriting. That mismatch is what the sliding scale was invented to fix: make the commission a function of results, and both sides start caring about the same number.

How the Sliding Scale Moves With the Loss Ratio

A sliding-scale commission rises when the loss ratio falls and falls when the loss ratio rises. The relationship is mechanical, agreed in advance, and written into the treaty wording as a table or formula. The logic is deliberately simple: the loss ratio measures underwriting performance, so tying the commission to it means the cedent is paid more for delivering a profitable book and less for delivering a poor one.

The scale pivots around a provisional commission — the starting point, set near the expected loss ratio. The textbook structure: **30% provisional, adjusted one point per point of loss ratio above or below 70%, with a 25% minimum and 35% maximum.** Beat 70% and the commission climbs toward 35%; miss it and it slides toward 25%. The fundamentals of reinsurance explain how this linkage fits the broader cedent-reinsurer bargain.

Reading a Sliding-Scale Table

Your treaty slip says something like this. Here is what each line means:

Treaty loss ratio	Ceding commission	What it means
65% or lower	35% (maximum)	The book ran well; the cedent earns the top rate.
68%	32%	Two points better than expected; two extra points of commission.
70%	30% (provisional)	Exactly as expected; the provisional rate applies.
72%	28%	Two points worse; two points shaved off.
75% or higher	25% (minimum)	The book ran poorly; the floor protects the reinsurer.

Notice the symmetry: every point of loss ratio moves the commission one point in the opposite direction, until the scale hits its guardrails. Between 65% and 75% the scale is live; outside that corridor the minimum or maximum pins it. The table is the negotiation — the width of the corridor and the height of the guardrails are where the underwriters spent their time. Brokers preparing January placements track these terms closely because commission scales are among the first things to move when the global reinsurance market hardens or softens at renewal.

Minimum, Maximum, and the Swing

Three numbers define every sliding scale, and your slip will name all three. The **provisional commission** is the starting rate — 30% in our example — applied to interim settlements before the final loss ratio is known. The **minimum** (25%) is the floor: however badly the book performs, the cedent keeps at least this much, which matters because the cedent's expenses are real whether the book is profitable or not. The **maximum** (35%) is the ceiling: however brilliantly the book performs, the reinsurer keeps at least this margin.

The **swing** is the distance between minimum and maximum — here, ten points — measuring how much performance risk the two sides share. A narrow swing behaves almost like a fixed commission; a wide swing lets the cedent's economics move hard with results. Wide swings appear on volatile books where the reinsurer insists on downside protection; narrow swings on stable portfolios. The three numbers are the two sides' agreed picture of how uncertain the book is.

A Full Worked Example — \$10 Million of Ceded Premium

Put the scale to work on a \$10 million quota share cession with our 30% provisional / 25% minimum / 35% maximum structure, sliding one-for-one around a 70% loss ratio. Three treaty years, three outcomes:

Year one — the good year. Paid and reserved losses total \$6.5 million, a 65% loss ratio. The formula gives $30 + (70 - 65) = 35\%$, which is exactly the maximum. Commission: **\$3.5 million**. The cedent is rewarded for clean underwriting, and the reinsurer still earns $\$10M - \$6.5M - \$3.5M = \$0$ before its own expenses — thin, but the treaty performed.

Year two — the expected year. Losses of \$7.2 million, a 72% loss ratio. Commission slides to $30 - 2 = 28\%$, or **\$2.8 million**. The reinsurer keeps $\$10M - \$7.2M - \$2.8M = \$0$ on underwriting before expenses. Both sides land

roughly where they planned.

Year three — the bad year. Losses of \$8.5 million, an 85% loss ratio. The raw formula gives $30 / 15 = 15\%$, but the 25% minimum pins it: commission **\$2.5 million**. The reinsurer absorbs \$10M \$8.5M \$2.5M = \$1.0 million on underwriting. The floor did its job — without it, the cedent's commission would have collapsed to \$1.5 million and the cedent might have walked away from the relationship entirely.

Across the three years the cedent earned \$9.3 million in commission against \$30 million ceded — an average 31% — while the reinsurer's results tracked the book's actual performance. That is the whole point: the commission breathes with the book. Compare this with the fixed 30%, which would have paid \$9.0 million regardless and left the reinsurer uncompensated for the bad year. The underwriting cycle is what makes these mechanics matter — commission scales widen and narrow with market conditions, and reading them tells you where you are in the cycle.

Profit Commission vs Sliding Scale

A profit commission is the sliding scale's cousin, settled after the fact. Instead of adjusting the commission during the treaty year as the loss ratio develops, the profit commission waits until the books close — typically 12 to 24 months after the treaty year ends — and returns an agreed percentage of the reinsurer's *profit* to the cedent.

The arithmetic: take ceded premium, subtract paid and outstanding losses, subtract the ceding commission already paid, subtract the reinsurer's expense allowance, and what remains is the profit. The profit commission is a share of that remainder — commonly 15% to 25%. On our \$10 million book: premium \$10M, losses \$6M, commission \$3M, reinsurer expenses \$0.5M leaves \$0.5M profit; a 20% profit commission returns **\$100,000** to the cedent.

The practical difference: a sliding scale adjusts *during* the treaty period on interim loss ratios; a profit commission is a *retrospective* true-up paid once, sometimes years later. Sliding scales suit ongoing proportional relationships; profit commissions suit seasoned books where the cedent wants explicit upside participation. Some treaties carry both. The professional guide to reinsurance places both in the full treaty toolkit.

Why Reinsurers Offer Them

It looks generous — the reinsurer volunteering to pay more when things go well — but it is pure self-interest. First, alignment: a cedent paid a flat 30% has no treaty-driven reason to decline a marginal risk; a cedent whose commission climbs toward 35% on clean business underwrites like an owner. Second, retention: treaties reprice every year, and a cedent that earned its maximum will renew instead of shopping the book. Third, information: the scale's final position tells the reinsurer, in one number, how the cedent's underwriting actually performed. For catastrophe-exposed cedents, these economics interact with the rest of the program — the catastrophe portfolio management piece shows how proportional economics sit alongside the excess layers.

Frequently Asked Questions

What is a ceding commission?

A ceding commission is the percentage of ceded premium a reinsurer pays back to the cedent on a proportional treaty — quota share or surplus — as reimbursement for the cost of acquiring and underwriting the business.

The cedent paid producers, underwriters, and systems to originate the book; the commission, often 25% to 35%, compensates those expenses. It is the most negotiated economic term on a proportional placement slip.

How does a sliding-scale commission move with the loss ratio?

The commission moves inversely to the treaty's loss ratio: as the loss ratio falls below the expected level, the commission rises toward its maximum; as the loss ratio climbs above it, the commission falls toward its minimum. A common structure adjusts one point of commission for each point of loss ratio around the expected level — for example, 30% provisional at a 70% loss ratio, sliding between a 25% minimum and a 35% maximum. This ties the cedent's economics directly to underwriting performance.

How do you read a sliding-scale table on a treaty slip?

Find three numbers: the provisional commission (the starting rate), the loss ratio it is set against, and the minimum and maximum guardrails. Each row of the table then shows the commission for a given loss ratio outcome. Read down the loss-ratio column to your scenario and across to the commission — that is what the cedent earns if the book performs that way. The corridor between the minimum and maximum is where the scale is live; outside it, the guardrails pin the rate.

What do the minimum, maximum, and swing mean?

The minimum is the floor commission the cedent keeps no matter how badly the book performs; the maximum is the ceiling no matter how well it performs. The swing is the distance between them — with a 25% minimum and 35% maximum, the swing is ten points. A wide swing means the treaty's economics move sharply with results; a narrow swing behaves almost like a fixed commission. The swing reflects how uncertain both sides consider the book.

What is the difference between a profit commission and a sliding scale?

A sliding scale adjusts the ceding commission during the treaty year as the loss ratio develops, affecting interim cash flow. A profit commission is calculated after the treaty year closes — usually 12 to 24 months later — and pays the cedent an agreed share, often 15% to 25%, of the reinsurer's actual profit on the treaty. Some treaties carry both: the scale manages the interim economics and the profit commission provides the final retrospective true-up.

Why do reinsurers offer sliding-scale commissions?

To align incentives: a cedent whose commission rises with good results underwrites like an owner, which produces better books for the reinsurer. Scales also aid retention, since a cedent that earned its maximum renews rather than remarkets, and they automate renewal negotiations by settling the economics from observed performance instead of argument. The scale's final position even serves as a clean one-number signal of how the cedent's underwriting performed.

Aggregate Stop-Loss: Loss-Ratio Mechanics

Source: <https://riskcoveragehub.com/aggregate-stop-loss-loss-ratio-treaty-mechanics/> Published: October 1, 2026

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Direct Answer: Aggregate stop-loss reinsurance pays when a cedent's *loss ratio* on a defined subject book rises above an attachment point (for example 70%) and reimburses losses within a corridor up to a limit (for example 90%), so recovery equals subject premium multiplied by the ratio band actually exceeded, capped at the corridor width. On \$100M of subject premium with 70% attachment and 90% limit, the treaty pays nothing at a 65% loss ratio, pays \$10M at 80%, and pays a capped \$20M at 105% because the 20-point corridor is fully consumed. Stop-loss is earnings protection: it smooths the combined ratio and shields underwriting profit in bad frequency years, unlike per-occurrence excess-of-loss, which is built to absorb large individual losses against surplus.

On a treaty slip, stop-loss looks like other aggregate covers until you see attachment stated as a percentage of premium rather than a dollar threshold on a single loss. That distinction drives recovery modeling and program design. For treaty context, see quota share, excess-of-loss, and aggregate structures, then use the sections below to decode loss-ratio mechanics on the slip in front of you.

Stop-loss in one paragraph

Aggregate stop-loss (also **stop-loss ratio reinsurance**) covers the *whole subject portfolio* over a defined period, usually one accident or underwriting year. The cedent sums incurred losses under the treaty definition, divides by **subject premium** (the slip's premium base), and obtains a **loss ratio**. When that ratio crosses the **attachment point**, the reinsurer pays within the band up to the **limit** (the corridor). Losses below attachment and losses above the limit stay with the cedent unless another layer applies. Subject premium may differ from statutory written or earned premium; every ratio point converts to dollars through that denominator, so confirm the slip's premium definition before pricing. For why cedents transfer risk at all, see how carriers transfer risk to reinsurers and policyholders.

The loss-ratio corridor — how attachment and limit work

Read a stop-loss slip as a **corridor** between attachment and limit in loss-ratio points. At **70% attachment** and **90% limit**, the corridor is **20 ratio points** (90% minus 70%). Each point equals 1% of subject premium within the payable band.

Why the corridor is in ratio points, not dollars

Per-occurrence excess-of-loss attaches at dollar retentions on individual claims. Stop-loss attaches on book experience relative to premium scale: the same dollar attachment would mean different protection for a \$40M book and a \$140M book. Ratios keep cover proportional to the subject portfolio.

Corridor width in dollars = Subject premium × (Limit Attachment), with attachment and limit as decimals (0.70 and 0.90).

On **\$100M** subject premium and a 70% to 90% corridor:

- Attachment dollars = $\$100\text{M} \times 0.70 = \$70\text{M}$ incurred before the treaty pays within the band.
- Limit dollars = $\$100\text{M} \times 0.90 = \$90\text{M}$ incurred at which additional corridor recovery stops (subject to slip definitions).
- Maximum recovery = $\$100\text{M} \times (0.90 - 0.70) = \$20\text{M}$.

Recovery (standard corridor, no coinsurance or reinstatement) = Subject premium $\times$ [min(Actual loss ratio, Limit) Attachment] when Actual loss ratio > Attachment; otherwise zero. At **80%** actual loss ratio: 80% 70% = 10 points; recovery = $\$100\text{M} \times 0.10 = \$10\text{M}$. The cedent still funds the first \$70M and any loss above \$90M on worse years.

Worked example on a \$100M book

Annual aggregate stop-loss: **subject premium \$100M, attachment 70%, limit 90%**, ultimate incurred on the subject book. Three scenarios:

Scenario A — 65% loss ratio (below attachment)

Incurred losses = 65% $\times$ \$100M = **\$65M**. Ratio is below 70% attachment. Treaty recovery = **\$0**. Cedent retains all \$65M.

Scenario B — 80% loss ratio (inside the corridor)

Incurred losses = 80% $\times$ \$100M = **\$80M**. Points above attachment = 80% 70% = **10**. Recovery = $\$100\text{M} \times 0.10 = \$10\text{M}$. Losses from \$70M to \$80M (\$10M) are reimbursed. Net loss after recovery = \$80M \$10M = **\$70M** (attachment dollars).

Scenario C — 105% loss ratio (above the limit)

Incurred losses = 105% $\times$ \$100M = **\$105M**. Uncapped points above attachment = 35; limit caps the payable band at 90% 70% = **20 points**. Recovery = $\$100\text{M} \times 0.20 = \$20\text{M}$. Loss above 90% limit = \$105M \$90M = **\$15M** retained. Cedent net after recovery = \$105M \$20M = **\$85M**.

Actual loss ratio	Incurred losses	Ratio above attachment	Treaty recovery	Cedent net losses (after SL)
65%	\$65M	0 (below 70%)	\$0	\$65M
80%	\$80M	10 points	\$10M	\$70M
105%	\$105M	20 points (capped at limit)	\$20M	\$85M

Stop-loss buys defined ratio bandwidth, not unlimited tail. Program placement with quota share and working XoL is covered in the reinsurance treaty complete guide.

Why it is called earnings protection, not capital protection

Stop-loss responds to **aggregate underwriting results**, not a single shock loss against surplus. **Earnings protection** means shielding the **underwriting P&L** and **combined ratio** when frequency or moderate severity pushes the loss ratio into the corridor. A cedent may remain adequately capitalized while missing earnings targets; stop-loss dampens that income-statement volatility on the subject book.

Capital protection is the usual frame for **per-occurrence excess-of-loss** and catastrophe covers that absorb losses large enough to stress surplus, models, or regulatory minimums. A \$250M nat-cat event is severity and accumulation territory; a 70/90 stop-loss does not replace cat XoL. See catastrophe portfolio management, accumulation, and PML reinsurance for that stack. Quota share shares every loss dollar from the first dollar; stop-loss sits above a ratio retention and pays only when experience deteriorates into the corridor—cedents buy it when they accept “normal” bad years to attachment but want reinsurance for incremental ratio deterioration

that would distort reported margin.

Stop-loss vs aggregate excess-of-loss

Both can respond to aggregated experience; the trigger differs decisively.

Aggregate excess-of-loss attaches when **aggregate dollars of loss** exceed a dollar attachment (often after per-occurrence terms). Example wording: pay 100% of aggregate losses excess of \$50M, subject to an aggregate limit of \$25M. The trigger is cumulative incurred amount, not loss divided by premium.

Aggregate stop-loss attaches when the **loss ratio** exceeds a percentage of subject premium. The same \$50M of losses may trigger aggregate XoL on a small book but sit below 70% attachment (\$70M) on a \$100M premium book.

Stop-loss scales with premium automatically; aggregate XoL holds a fixed dollar retention unless indexed. Cedents thinking in margin and ratio targets (MGAs, niche carriers) favor stop-loss; dollar-stated retentions (facilities, captives) favor aggregate XoL. Treaty taxonomy appears in the reinsurance complete professional guide.

When cedents buy it in the underwriting cycle

Stop-loss demand rises when earnings visibility matters and ratio capacity tightens—not usually as the first defense in a soft market with cheap working layers.

Hard markets. Reinsurers shrink lines and raise attachments on proportional and working XoL; cedents may retain more frequency and buy stop-loss to cap the ratio tail. Fewer markets on 70/90 classes pushes rate-on-line relative to the \$20M corridor cap in the \$100M example. Cycle context: insurance underwriting cycles, hard and soft markets, coverage, and pricing.

MGAs and thin margins. Programs with explicit loss-ratio targets to carriers align attachment to the tier where profit share or commission erodes, protecting economics in a heavy frequency year without repricing every underlying policy.

Results season. Carriers bind before year-end to limit fourth-quarter development surprises on volatile lines. Ratio attachment grows with subject premium mid-year if the book expands—a deliberate feature.

January renewal. Stop-loss often renews with the rest of the program; collateral and retro pressure affect whether prior 70/90 economics hold. See the global reinsurance market, Lloyd's, Bermuda, and January renewal. Reconcile premium forecast, expected loss ratio, and corridor cost: a \$20M limit on \$100M premium adds little if modeled ratios never reach 70%; it matters when stress cases cluster at 85% to 95%.

FAQ

What is the difference between stop-loss and excess-of-loss reinsurance in one paragraph?

Excess-of-loss reinsurance pays when an individual loss or a defined occurrence exceeds a dollar retention, or when an aggregate dollar total exceeds a threshold, depending on the layer type. Aggregate stop-loss reinsurance pays when the incurred loss ratio on a subject book exceeds a percentage attachment point and reimburses the cedent within a ratio corridor up to a limit. Excess-of-loss is built to cap severity or aggregate dollar exposure; stop-loss is built to cap underwriting margin deterioration relative to premium scale.

How does the loss-ratio corridor work on a stop-loss treaty?

The attachment point and limit are expressed as loss ratios on subject premium. The corridor is the difference between limit and attachment in ratio points. Each ratio point equals 1% of subject premium in dollar terms. Recovery equals subject premium multiplied by the actual loss ratio above attachment, capped so the ratio credit does not exceed the limit. On \$100M subject premium with 70% attachment and 90% limit, the corridor is 20 points and maximum recovery is \$20M.

Show the worked numbers: how does a stop-loss respond on a \$100M book at 65%, 80%, and 105% loss ratios?

Subject premium \$100M, attachment 70%, limit 90%. At 65% the incurred loss is \$65M, below attachment, recovery \$0. At 80% incurred loss is \$80M, which is 10 ratio points above attachment, recovery $\$100M \times 0.10 = \$10M$. At 105% incurred loss is \$105M; uncapped points above attachment would be 35, but the limit caps payable band at 20 points from 70% to 90%, recovery $\$100M \times 0.20 = \$20M$, with \$15M of loss above the 90% limit retained by the cedent.

Why is stop-loss called earnings protection rather than capital protection?

Stop-loss smooths the combined ratio and protects underwriting profit in bad frequency or moderate severity years when the loss ratio enters the corridor. It does not replace catastrophe or large per-occurrence excess-of-loss designed to absorb shock losses that threaten surplus and regulatory capital. A cedent can remain adequately capitalized while still suffering an earnings miss; stop-loss targets that earnings volatility on a defined book rather than solvency stress from single large events.

What is the difference between stop-loss and aggregate excess-of-loss?

Aggregate stop-loss attaches when the loss ratio exceeds a percentage of subject premium and pays within a ratio band up to a limit. Aggregate excess-of-loss attaches when cumulative incurred losses exceed a dollar amount and pays subject to aggregate limits and any per-occurrence terms in the slip. Stop-loss scales automatically with premium; aggregate XoL retains a fixed dollar attachment unless the treaty is indexed or amended.

When in the underwriting cycle do cedents buy stop-loss cover?

Cedents most often buy or renew stop-loss when hard markets tighten capacity, when MGAs and program carriers need to protect thin margins against frequency-driven ratio spikes, and when management wants earnings stability into results reporting. Demand rises when cedents retain more on working layers but still want a defined ratio tail cover on a subject book, commonly aligned to January or other annual treaty renewals.

Reinstatement Provisions, Explained

Source: <https://riskcoveragehub.com/reinsurance-reinstatement-provisions-explained/> Published: October 1, 2026

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Direct Answer: A reinstatement provision puts catastrophe excess-of-loss treaty limit back in place after a qualifying loss has used it up, almost always in return for additional premium paid by the cedent. When a slip reads “1 reinstatement at 100% additional premium,” the layer can respond to a first event, then be restored once for a charge equal to a full duplicate of the original layer premium so a second event can access the same

limit again. With no reinstatements—or after the purchased reinstatements are gone—the limit behaves like a consumable: one USD 20 million limit and one USD 20 million qualifying loss can mean zero limit left for the rest of the treaty year.

On the same slip as an excess-of-loss treaty structure, reinstatement answers whether limit returns after a hit. Limit is how much pays above retention; reinstatement is whether you get a second shot in the same treaty year. Worked premium arithmetic follows where the slip does math on you.

What a reinstatement actually is

A treaty limit is a consumable resource for the contract period, not a label that resets for free after each loss. Picture a catastrophe excess-of-loss layer: USD 20 million limit above USD 10 million retention (“USD 20 million xs USD 10 million”). One covered catastrophe with USD 30 million of qualifying loss above the retention typically produces USD 20 million from reinsurers and USD 10 million retained. If that loss fully exhausts the layer, there is no second USD 20 million waiting behind the next storm unless the contract restores it.

Reinstatement is the clause that restores limit—fully or partly—after a paid or incurred loss (per the contract trigger) has reduced it. Attachment and covered perils stay the same; only the vertical capacity is replenished, up to the number of reinstatements bought and the premium formula on the slip.

Reinstatement is intra-year buy-back of burned capacity; renewal is a new package for a new period.

Why catastrophe XoL carries reinstatements and working layers usually do not

Catastrophe excess-of-loss is priced for **severity**—rare events that blow through high retentions and can empty a limit in one occurrence. Working excess layers sit lower and absorb **frequency**: many smaller losses nibbling at limit through the year until aggregate caps or expiry stop the erosion.

Cat XoL solves the **second-event problem** within one season: if Hurricane A exhausts limit, Hurricane B pays zero on that layer unless limit is reinstated. Working covers often omit reinstatements or grant unlimited pro-rata reinstatements because many small losses erode limit gradually. See catastrophe portfolio management and PML for accumulation context.

Reading the clause — “1 reinstatement at 100% additional premium” decoded

Read “1 reinstatement at 100% additional premium” in four chunks.

“1 reinstatement”

Limit may be restored **once** after a qualifying loss that exhausts or erodes limit (trigger = “losses paid,” “losses occurring,” or as defined). A third catastrophe in the same year does not get another free life unless the slip says “2 reinstatements” or “unlimited reinstatements.”

“At 100% additional premium”

The cedent pays extra premium equal to **100%** of the **original** layer premium—not 100% of indemnity paid, unless the slip says something else. This is a full duplicate premium for the reinstatement unless pro-rata

wording replaces flat 100%.

Worked example: USD 10 million xs USD 10 million, USD 25 million original premium

Assume a per-occurrence layer USD 10 million xs USD 10 million (reinsurance covers USD 10 million to USD 20 million above the cedent's retention on each occurrence). Original annual premium: USD 25,000,000.

Wording: 1 reinstatement at 100% additional premium. Event 1 is a single occurrence that fully exhausts the USD 10 million limit.

First event: Reinsurer pays USD 10,000,000. Remaining limit on the layer: USD 0.

Reinstatement premium: $100\% \times \text{USD } 25,000,000 = \text{USD } 25,000,000$ additional premium (cedent elects or automatic reinstatement applies per the slip).

After reinstatement: Limit available again: USD 10,000,000 at the same USD 10,000,000 attachment for the next qualifying occurrence.

All-in premium if Event 1 exhausts limit once and reinstatement is taken: USD 25,000,000 original + USD 25,000,000 reinstatement = **USD 50,000,000**, in exchange for up to two full USD 10,000,000 limit payments in the same treaty year (Event 1 and, if it happens, Event 2).

Event 2 can use the reinstated limit; Event 3 gets nothing from this layer if Event 2 exhausts it. Cross-check hours clauses and aggregates in the reinsurance treaty complete guide.

Pro-rata vs 100% additional premium

Flat **100% additional premium** charges the full stated percentage of original layer premium whether the loss hits in January or November. **Pro-rata additional premium as to time** scales that charge by the fraction of the treaty year still unexpired when the loss occurs (or by limit reinstated, if the slip says so).

Worked example: loss in month 4 of a 12-month treaty

Original layer premium USD 1,200,000. Slip A: "100% additional premium." Slip B: "100% additional premium pro-rata as to time remaining." Loss at end of month 4; exam convention uses 8 months remaining of 12.

Slip A (flat): $\text{USD } 1,200,000 \times 100\% = \text{USD } 1,200,000$.

Slip B (pro-rata time): $\text{USD } 1,200,000 \times 100\% \times (8 \div 12) = \text{USD } 800,000$.

Difference: USD 400,000 saved under pro-rata in this timing. A loss in month 11 with one month left would yield $\text{USD } 1,200,000 \times (1 \div 12) = \text{USD } 100,000$ under the same pro-rata formula versus USD 1,200,000 flat.

Some slips pro-rate by **amount reinstated** instead of time; the defined basis on the slip controls.

How many reinstatements is market-standard

On peak **catastrophe excess-of-loss** layers (North Atlantic wind, California earthquake, and similar), **one or two reinstatements** at 100% or pro-rata additional premium is ordinary market form—not unlimited free resets on the highest-severity slices.

“2 @ 100%” in broker notes means two reinstatement events, each billed at 100% of layer premium (modified by pro-rata language if present). It is not a single upfront premium equal to 200% of annual premium; it is up to two separate reinstatement charges if limit is exhausted twice.

Unlimited reinstatements show up more on working or attritional-style programs, often at pro-rata premium per reinstatement, because frequency pricing and aggregate mechanics differ. Unlimited on low-attachment cat layers is uncommon because tail exposure becomes hard to bound in one original premium.

Hard markets may trim reinstatement count or shift to pro-rata; see underwriting cycles and pricing and global reinsurance market and January renewal.

Who pays and when

The **cedent** pays reinstatement premium to reinsurers. It flows through the reinsurance cost stack and net underwriting result, not as a separate invoice to individual policyholders.

Automatic reinstatement restores limit when the trigger fires; premium follows the formula without a new election. **Optional reinstatement** needs notice within the stated window; if the cedent declines, limit stays exhausted.

Billing ties to loss payment or adjustment; pro-rata uses the loss or reinstatement date per the slip. Accrue automatic reinstatement when a full limit loss is probable. See reinsurance fundamentals and the complete professional guide.

What happens when the limit exhausts with no reinstatement left

When limit is fully used and no reinstatement remains—or the cedent skips an optional reinstatement—the cedent is **naked** on the next qualifying loss for that layer until renewal. Retention and amounts above the prior limit stay with the cedent unless another treaty or retro responds.

Example: USD 25 million xs USD 25 million cat layer, one reinstatement at 100% consumed after the first hurricane. A second hurricane exhausts the reinstated USD 25 million. A third major event in the same treaty year collects zero from this layer.

The **2005 Atlantic season** (Katrina, Rita, Wilma) showed clustered severity burning limits and reinstatement economics. Adequate reinstatements let peak cat layers keep sharing later events; exhausted reinstatements left cedents retaining later hits. Track limit left, reinstatements left, and hours-clause occurrence definition after each major loss.

FAQ

What is a reinstatement provision in reinsurance?

A reinstatement provision is contract language that restores some or all of a treaty layer’s limit after a qualifying loss has reduced or exhausted that limit during the same contract period. The restoration is usually subject to a cap on how many times it may occur and a requirement that the cedent pay additional premium calculated as a stated percentage of the original layer premium or pro-rata by time or amount reinstated. Without a reinstatement provision, a fully used limit stays at zero until renewal.

Why do catastrophe excess-of-loss treaties carry reinstatements while working layers usually don’t?

Catastrophe excess-of-loss treaties address low-frequency, high-severity events where a single occurrence can consume an entire limit and where a second major event in the same season is a realistic tail scenario. Reinstatements buy back capacity for that second event. Working excess layers typically address higher-frequency, smaller losses where erosion happens gradually through many claims and pricing reflects annual loss activity differently; they may omit reinstatements or offer unlimited pro-rata reinstatements because the exposure pattern is not dominated by one or two binary cat hits.

What is the difference between pro-rata and 100% additional premium on a reinstatement?

One hundred percent additional premium means the reinstatement charge equals the full stated percentage—often 100%—of the defined original layer premium, regardless of when in the treaty year the loss occurs. Pro-rata additional premium scales that charge by a stated factor, commonly the fraction of the contract year still remaining after the loss or the fraction of limit being reinstated. A loss early in the year with pro-rata time pricing usually costs more than a loss late in the year; flat 100% charges the same duplicate premium either way.

How many reinstatements is market-standard on a cat XoL treaty?

On peak catastrophe excess-of-loss layers, one or two reinstatements at 100% or pro-rata additional premium each is common market practice, though terms vary by peril, zone, and market cycle. Unlimited reinstatements are more typical on some working or attritional-style covers at pro-rata premium than on high-severity cat layers. Broker summaries often shorthand “2 @ 100%” as two separate reinstatement charges, each at full additional premium unless pro-rata wording applies.

What happens when the limit exhausts with no reinstatement left?

After the limit is fully exhausted and no reinstatement remains—or the cedent declines an optional reinstatement—the layer pays nothing on further qualifying losses until the next treaty period. The cedent retains losses from the attachment upward according to program structure, unless other reinsurance or retrocession applies. Clustered catastrophe seasons illustrate the risk: multiple major events can sequentially deplete limit and reinstatements, leaving later events wholly retained.

Who pays the reinstatement premium, and when is it due?

The cedent pays reinstatement premium to the reinsurer under the treaty’s billing terms. Payment is typically triggered when a defined loss exhausts or reduces limit and reinstatement occurs—automatically or by election—with the invoice often tied to loss payment, adjustment, or a stated notice period. The due date and pro-rata measurement date follow the slip; accounting teams usually accrue the charge when reinstatement is automatic and a full limit loss is recognized.

Excess-of-Loss Layers: Attachment Points, Retentions, Exhaustion

Source: <https://riskcoveragehub.com/excess-of-loss-layers-attachment-retention-explained/> Published: October 1, 2026

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Direct Answer: On a treaty slip, “€5M xs €5M” means the reinsurer will pay up to €5 million of any covered loss that exceeds €5 million. The first €5 million is the layer’s limit, the second €5 million is the attachment

point, which is also the cedent's retention, and the layer's exhaustion point is their sum, €10 million. One short line of notation therefore tells you who pays, how much, and exactly where the next layer begins.

Reading the Notation on a Treaty Slip

Excess-of-loss reinsurance, often shortened to XoL, is one of the three main treaty structures used to move large-loss risk off a cedent's balance sheet, alongside quota share and aggregate arrangements. Where a quota share divides every loss proportionally, excess of loss is purely non-proportional: the reinsurer pays nothing until a loss is large enough to reach the layer, and then pays only within the layer's band.

The anatomy of "X xs Y"

Every excess-of-loss layer is described by two numbers. The number after "xs" is the **attachment point**: the loss threshold at which the reinsurer begins to respond. The number before "xs" is the **limit**: the maximum the reinsurer will pay on any one loss once that threshold is crossed. Their sum is the **exhaustion point**: the total loss size at which the layer is fully used up.

So "\$5M xs \$5M" reads as: losses up to \$5 million are the cedent's alone; the next \$5 million, from \$5 million to \$10 million, belongs to the reinsurer; and any loss above \$10 million exhausts this layer and moves on to whatever sits above it. The "xs" is shorthand for "in excess of," and the structure is sometimes called a working layer when it sits close to expected loss levels, or a catastrophe layer when it attaches far above them.

Worked example: a \$10 million loss against a "\$5M xs \$5M" layer

Take a property treaty with a single layer of \$5M xs \$5M, and assume a fire loss settles at exactly \$10 million. Walk the arithmetic from the ground up:

- **Cedent's retention:** the first \$5 million, from \$0 to the \$5 million attachment point, stays with the cedent.
- **Layer response:** the loss above the attachment point is \$10M - \$5M = \$5 million, which fits entirely inside the \$5 million limit.
- **Reinsurer's payment:** \$5 million. **Cedent's net retained loss:** \$5 million.

Now suppose the same layer faces a \$12 million loss. The reinsurer still pays only its \$5 million limit, because the layer is exhausted at \$10 million. The cedent absorbs \$5 million below the attachment point plus \$2 million above the exhaustion point, for a \$7 million retained loss. And a \$4 million loss never reaches the layer at all: the reinsurer pays zero, and the cedent keeps the full \$4 million.

Attachment Point, Retention, and Exhaustion Point

Three terms get used constantly on slips and in placement conversations, and two of them describe the same boundary from opposite sides of the table. Getting them straight is the difference between understanding a program and misreading it by the size of the retention.

Attachment point versus retention

The attachment point and the retention usually describe the **same dollar threshold**, viewed from different seats. From the reinsurer's side, \$5 million is the point where its liability attaches, so it is called the attachment point. From the cedent's side, \$5 million is the amount of each loss it keeps before help arrives, so it is called the retention. On most slips the two are identical: "\$5M xs \$5M" gives the reinsurer an attachment point of \$5

million and the cedent a retention of \$5 million on each covered loss.

The distinction matters when retentions are expressed differently from attachments. A cedent might describe a “\$5 million per-occurrence retention” while the slip shows the layer attaching at \$5 million per occurrence: same boundary, same meaning. Confusion creeps in with features like franchise deductibles that apply inside the cedent’s own policies, which are separate mechanics from the treaty’s attachment point. When in doubt, ask: at what loss size does the first dollar of reinsurance respond.

The exhaustion point, and why it anchors the next layer

The exhaustion point is the attachment point plus the limit: for “\$5M xs \$5M,” exhaustion sits at \$10 million. In a single-layer placement it marks where the cedent becomes its own reinsurer again: any loss above \$10 million is the cedent’s problem unless a higher layer has been bought. Brokers watch exhaustion points at renewal, because a cedent that has grown its line sizes may find last year’s exhaustion point now sits below its largest plausible loss. For background on how treaty structures fit together, the parent guide to reinsurance treaty structures walks through quota share, excess of loss, and aggregate covers side by side.

How Layers Stack into a Program Tower

Few cedents buy a single layer. They buy a **program tower**: excess-of-loss layers stacked so that the exhaustion point of one layer is the attachment point of the next, giving the cedent continuous cover from its chosen retention to the top of the program.

Worked example: a three-layer tower

Consider a regional property carrier that wants \$35 million of cover above a \$5 million retention. Its broker builds this tower:

- **Layer 1:** \$5M xs \$5M, covering losses from \$5 million to \$10 million.
- **Layer 2:** \$10M xs \$10M, covering losses from \$10 million to \$20 million.
- **Layer 3:** \$20M xs \$20M, covering losses from \$20 million to \$40 million.

Exhaustion for the whole program sits at \$40 million: \$5M retention + \$5M + \$10M + \$20M of reinsurance. Three loss sizes through the tower:

- **\$25 million loss:** the cedent keeps \$5 million. Layer 1 pays its full \$5 million limit, Layer 2 pays its full \$10 million limit, and Layer 3 pays \$5 million of its \$20 million limit. Reinsurers pay \$20 million in total; the cedent nets \$5 million.
- **\$40 million loss:** every layer is exhausted. The cedent retains \$5 million, reinsurers pay \$35 million, and the program is fully consumed for that loss.
- **\$50 million loss:** the tower exhausts at \$40 million, so the cedent retains \$5 million below the attachment plus \$10 million above the tower, a \$15 million net loss. The remaining \$10 million is why cedents model accumulation and probable maximum loss before deciding where the tower ends.

Reading the tower top to bottom

On a slip the layers are usually listed from the ground up, each one naming its limit, its attachment, and the reinsurers participating in it. The running total of attachment plus limit at each step is worth checking by hand, because a typo that sets Layer 2’s attachment at \$12 million instead of \$10 million opens a \$2 million gap the

cedent did not agree to carry. The test of a clean tower is that each layer's attachment equals the exhaustion point of the layer beneath it, with no gaps and no overlaps.

Per-Risk, Per-Occurrence, and Aggregate Excess of Loss

The words after the numbers on a slip change what "a loss" means. An attachment of \$5 million behaves very differently depending on whether it applies to one risk, one occurrence, or the year's aggregate results.

Per-risk XoL

A **per-risk excess-of-loss** treaty applies its attachment and limit to each individual insured risk, meaning each policy or each location. "\$5M xs \$5M per risk" on a property treaty responds when a single building's loss exceeds \$5 million. If a windstorm damages fifty insured buildings at \$2 million each, the \$100 million event total never triggers a per-risk layer, because no single risk crossed the attachment.

Per-occurrence XoL

A **per-occurrence excess-of-loss** treaty applies its attachment and limit to each occurrence, meaning each event, however many risks it touches. "\$10M xs \$10M per occurrence" on a catastrophe treaty responds to the aggregate of all losses from one hurricane or one earthquake once the event total passes \$10 million. The definition of an occurrence, including the hours clause that groups related losses into a single event, is one of the most negotiated parts of the slip, and the complete guide to reinsurance treaties covers the clauses around the numbers.

Aggregate XoL, often called stop loss

An **aggregate excess-of-loss** treaty applies its attachment and limit to the cedent's accumulated losses over the treaty year, rather than to any single risk or event. "\$15M xs \$25M aggregate" means the reinsurer pays up to \$15 million of the cedent's total annual losses once those losses pass \$25 million in aggregate. This is the cover that protects a bad year rather than a bad event: a string of mid-size losses that never trouble the per-occurrence layers can still climb past an aggregate attachment.

Placement Order and Co-Participation

So far the arithmetic has assumed each layer is fully placed with the reinsurance market. In practice, layers are subscribed by panels of reinsurers, and the cedent sometimes keeps a slice of the layer itself. Both mechanics show up on the slip, and both change who pays what when a loss arrives.

Placement order: who signs the slip first

Placement follows a subscription order. The broker offers the layer to a **lead reinsurer**, which sets the price and terms; following markets then subscribe for their shares at the lead's terms. The slip records each subscriber's **line size**, its percentage of the layer. A layer that is only 80 percent subscribed leaves 20 percent of every covered loss uninsured unless the cedent fills it through co-participation.

Worked example: 80 percent placed, 20 percent co-participation

Take the familiar \$5M xs \$5M layer, but the broker places only 80 percent of it in the market. The cedent retains a 20 percent **co-participation**, keeping one-fifth of the layer's risk alongside its retention. Now run the \$10 million loss through again:

- **Cedent's retention:** \$5 million, unchanged, from \$0 to the attachment point.
- **Layer response:** \$5 million, the full limit, since the loss reaches the \$10 million exhaustion point.
- **Market reinsurers pay:** 80 percent of \$5 million = \$4 million.
- **Cedent's co-participation:** 20 percent of \$5 million = \$1 million.
- **Cedent's total net retained loss:** \$5 million retention + \$1 million co-participation = \$6 million.

Co-participation is not a failure of placement; it is often deliberate. Keeping a slice of the layer signals to the market that the cedent has skin in the game, which can improve pricing and secure a lead's signature. The slip shows the co-participation explicitly, and the junior reader's job is to add it back into the cedent's net position before reporting what a loss really costs the company.

Placement dynamics shift with market conditions. When capacity is tight at the January renewal, lower layers may go out with larger co-participations or higher attachments, which is why placement strategy is usually read alongside a view of the global reinsurance market at the January renewal. And for readers still building the foundations, the guide to reinsurance fundamentals explains how these treaty mechanics connect to the basic job of transferring risk.

Reading a Slip in Practice

Work a real excess-of-loss slip in this order. First, find the attachment point and limit of each layer and compute every exhaustion point by hand, checking that each layer's attachment equals the exhaustion of the one below. Second, confirm what the attachment applies to: per risk, per occurrence, or aggregate. Third, read the subscription panel for line sizes and any co-participation, and restate the cedent's true net retention including those slices. Done in that order, the notation stops being jargon and becomes a ledger: who pays, how much, and from what loss size onward.

Frequently Asked Questions

What does "5M xs 5M" mean on a treaty slip?

"5M xs 5M" means the reinsurer pays up to 5 million of any covered loss in excess of 5 million. The second number is the attachment point, which the cedent retains, and the layer is exhausted when the total loss reaches 10 million.

What is the difference between an attachment point and a retention?

They describe the same dollar threshold from opposite sides of the table. The attachment point is the reinsurer's term for the loss size where its liability begins, while the retention is the cedent's term for what it keeps. On most slips both are the same number.

How do excess-of-loss layers stack into a program tower?

Layers stack so that each layer's attachment point equals the exhaustion point of the layer below it, giving continuous cover from the cedent's retention to the top of the program. In a tower of \$5M xs \$5M, \$10M xs \$10M, and \$20M xs \$20M, one occurrence can draw on all three layers, and the program exhausts at \$40 million.

What is the difference between per-risk, per-occurrence, and aggregate excess of loss?

Per-risk XoL applies the attachment and limit to each individual insured risk, per-occurrence XoL applies them to each event across all affected risks, and aggregate XoL, also called stop loss, applies them to the cedent's total losses over the treaty year.

What does exhaustion mean for the cedent?

Exhaustion means a layer's limit has been fully used on a loss, so any further loss amount falls back on the cedent or on a higher layer. For a "5M xs 5M" layer, exhaustion arrives at a \$10 million loss.

Where do reinstatements fit into excess-of-loss layers?

A reinstatement restores a layer's limit after it has been partly or fully exhausted by a loss, so the cedent is not left uncovered for a second event in the same treaty year. Reinstatements are usually limited in number and carry an additional premium.

Quota Share vs Surplus Share: The Math

Source: <https://riskcoveragehub.com/quota-share-vs-surplus-share-treaty-mechanics/> Published: October 1, 2026

Updated October 6, 2026.

Direct Answer: A quota share treaty cedes a fixed percentage of every risk — a 50% quota share hands the reinsurer half of every premium and half of every loss, whatever the size of the risk. A surplus share treaty instead measures each risk against the cedent's retention in "lines": a 9-line surplus treaty on a \$200,000 retention automatically absorbs up to nine multiples of the retention (\$1.8 million) above what the cedent keeps, so small risks barely touch the reinsurer while large ones lean on it heavily. The practical difference is flexibility: quota share is a constant slice, surplus share is a capacity band that expands and contracts with each line.

Reading Your Treaty Slip

Every proportional treaty slip answers the same three questions: what the cedent keeps, what the reinsurer takes, and how the two are measured. In a quota share, the measurement is a percentage fixed at inception and applied to every risk. In a surplus share, it is a multiple of the cedent's retention, expressed in lines. Both are proportional treaties — premium and losses shared in the same ratio as the sums insured — which separates them from excess-of-loss covers that respond only above a threshold. They sit inside the broader family of reinsurance treaty structures, and both solve the same problem: how carriers transfer risk to reinsurers without giving up the business they want to keep.

Three terms do most of the work. The **cedent** hands risk over. The **retention** is what it keeps. The **cession** is what passes to the reinsurer.

Quota Share: One Fixed Percentage for Everything

How the percentage works

A quota share treaty states a single cession percentage — 50%, 70%, 30% — applied to every risk bound under it. At 50%, the reinsurer receives half the premium on each policy and pays half of each loss; the cedent keeps the other half of both. The percentage does not move with risk size or loss history: a \$100,000 homeowners line

and a \$5 million commercial account split identically, so a junior underwriter reading “50% quota share” knows the cedent’s net position on any covered risk with no further calculation.

Worked example: a 50% quota share on a \$2M line

Take a commercial property risk with a \$2,000,000 sum insured under a 50% quota share:

- **Cedent retains:** $50\% \times \$2,000,000 = \$1,000,000$
- **Reinsurer takes:** $50\% \times \$2,000,000 = \$1,000,000$

A \$400,000 fire loss splits the same way: \$200,000 each. No threshold, no per-risk limit. On a \$20,000 gross premium, the reinsurer receives \$10,000 and the cedent keeps \$10,000, less any ceding commission.

Surplus Share: Lines, Not Percentages

What a line actually is

A surplus treaty replaces the fixed percentage with a retention in currency and capacity in multiples of that retention. Each multiple is a **line**. With a \$200,000 retention, one line equals \$200,000, and a “9-line surplus treaty” provides nine lines — \$1,800,000 — of capacity above the retention. The reinsurer automatically accepts each risk’s portion above the retention up to the line limit, so the cession percentage is derived risk by risk from the line size rather than fixed on the slip.

Worked example: a \$1M line on a 9-line surplus treaty with a \$200k retention

Bind a \$1,000,000 commercial risk under a 9-line surplus treaty with a \$200,000 retention:

- **Retention:** \$200,000 (1 line — stays with the cedent)
- **Cession:** $\$1,000,000 - \$200,000 = \$800,000$ (4 lines — to the reinsurer)
- **Lines used:** 5 of the 9 available
- **Effective split:** cedent 20%, reinsurer 80%

Premium divides the same way: 80% follows the \$800,000 to the reinsurer. A \$600,000 loss on the risk costs the cedent \$120,000 (20%) and the reinsurer \$480,000 (80%) — the loss follows the sum-insured split exactly. The difference from quota share is only that the split was computed from the line size rather than read off the slip.

Small risks stay home

A \$150,000 risk under that treaty sits below the \$200,000 retention: zero lines used, nothing ceded, 100% retained. The identical risk under a 50% quota share would hand \$75,000 of sum insured, half the premium, and half of every loss to the reinsurer. For a book of small, profitable risks with a tail of large ones, surplus protects capacity where needed and leaves the good small business alone. The complete guide to reinsurance treaties counts surplus share among the core proportional forms for exactly this reason.

Why Surplus Flexes With Line Size While Quota Share Does Not

Side by side on the same book

The same three risks under both structures:

- **\$150,000 risk:** quota share cedes \$75,000 (50%); surplus cedes \$0 (below retention).
- **\$1,000,000 risk:** quota share cedes \$500,000 (50%); surplus cedes \$800,000 (80%).
- **\$2,000,000 risk:** quota share cedes \$1,000,000 (50%); surplus cedes \$1,800,000 (90%, capped at 9 lines).

The quota share's cession never moves. The surplus treaty's effective cession climbs from 0% to 80% to 90% as the line grows — a sliding scale built out of fixed lines, which is why brokers call surplus “automatic facultative.” The trade-off is administration: quota share needs no per-risk scheduling, while surplus requires every risk measured in lines and bordereau-reported. Cedents accept the paperwork because the economics favor mixed-size books — they stop paying reinsurance premium on risks they could retain. In hard markets, when hard-market pricing pressure makes every ceded premium dollar expensive, that efficiency often tips the choice toward surplus.

When the Line Exceeds the Treaty Limit

Worked example: a \$3M line against a 9-line treaty with a \$200k retention

Take a \$3,000,000 risk against the same treaty. Maximum cession is $9 \times \$200,000 = \$1,800,000$:

- **Cedent retention:** \$200,000 (1 line)
- **Treaty cession:** \$1,800,000 (9 lines — the treaty maximum)
- **Excess over treaty limit:** \$1,000,000 — outside the treaty entirely

A \$900,000 loss apportions by share of the total sum insured: treaty reinsurer \$540,000 (60%), facultative placement \$300,000 (33.3%), cedent \$60,000 (6.7%).

Facultative cover or outright retention

The \$1,000,000 excess has two homes. The usual one is **facultative reinsurance**: the broker places that specific layer before the policy is bound, so the line is fully protected on day one. The alternative is **outright retention**, which only makes sense when the balance sheet can absorb a total loss on that slice. The surplus treaty itself never stretches — nine lines is a hard cap. Large facultative placements are also where accumulation and probable maximum loss discipline matters most, since each individually placed layer still aggregates into peak exposures. Most are arranged in the January renewal season alongside the treaty itself, so the whole program is negotiated as one picture.

Ceding Commission: The Price of the Capacity

The reinsurer does not keep the ceded premium for free. On both treaty types it pays the cedent a **ceding commission** — a percentage of ceded premium reimbursing acquisition costs like brokerage and underwriting expense. If a quota share cedes \$10,000 of premium at a 30% ceding commission, \$3,000 comes straight back to the cedent.

Quota share commissions are often the centerpiece of the negotiation: because the reinsurer takes a slice of every risk including the small profitable ones, cedents push for higher flat commissions and frequently secure **sliding-scale commissions** that rise when the loss ratio beats target. Surplus treaty commissions are typically lower or flatter, because the cedent already keeps 100% of the premium on its retained share of every risk and cedes nothing below the retention — the reinsurer is paying for peak capacity on the larger lines, so the commission reflects that narrower role.

Frequently Asked Questions

What is a quota share treaty in one paragraph?

A quota share treaty is a proportional reinsurance agreement in which the cedent cedes a fixed percentage of every risk it writes — a 50% quota share means the reinsurer takes half of every premium and pays half of every loss, from the smallest homeowners line to the largest commercial account. The percentage never moves with risk size, so the split is perfectly predictable: the cedent knows exactly what it keeps and what it gives up before a single policy is written. In exchange for that premium, the reinsurer typically pays a ceding commission that reimburses the cedent's acquisition costs. What do surplus "lines" mean on a treaty slip?

A "line" is simply one multiple of the cedent's retention. If the retention is \$200,000, then one line equals \$200,000, and a "9-line surplus treaty" gives the cedent nine of those multiples — \$1.8 million of automatic reinsurance capacity above its own \$200,000 retention. Each risk draws down only what it needs: the portion above the retention is measured in lines (whole or fractional) and ceded, while the retention itself always stays with the cedent. Risks at or below the retention use zero lines and are fully retained. Can you walk through a worked example of a \$1M line on a 9-line surplus treaty?

Take a \$200,000 retention with a 9-line surplus treaty, and a \$1,000,000 risk. The risk equals five lines in total: the cedent keeps the first line — its \$200,000 retention, or 20% — and cedes the remaining four lines, \$800,000, or 80%, to the reinsurer. Premium splits the same way, so 80% follows the \$800,000 to the reinsurer. If the risk then suffers a \$600,000 loss, the cedent pays \$120,000 (20%) and the reinsurer pays \$480,000 (80%) — the loss follows the exact same 20/80 division as the sum insured. Why would a cedent choose a surplus treaty over a quota share?

A surplus treaty lets the cedent keep the economics of small risks while buying real capacity for large ones. Under a 50% quota share, a profitable \$150,000 risk still hands half its premium — and half of every small loss — to the reinsurer, diluting the cedent's best business. Under a surplus treaty with a \$200,000 retention, that same \$150,000 risk is fully retained: no premium ceded, no reinsurer involvement at all. The price is administration — every risk must be scheduled and measured in lines — but cedents with a spread of risk sizes often find surplus treaties cheaper in premium terms and kinder to retained profits. What happens to lines above the treaty limit?

They fall outside the treaty entirely. A \$3,000,000 risk on a 9-line surplus treaty with a \$200,000 retention can only place nine lines — \$1,800,000 — with the treaty reinsurer; capacity stops there. The remaining \$1,000,000 must be placed facultatively with another reinsurer or retained outright by the cedent. In practice the broker arranges facultative cover before binding, so no part of the line is left unprotected — but the surplus treaty itself contributes nothing beyond its nine lines. How do ceding commissions differ between quota share and surplus share?

Both treaty types pay a ceding commission — a percentage of the ceded premium that reimburses the cedent's acquisition and administrative costs — but the economics sit in different places. Quota share commissions are often the larger negotiation lever: because the reinsurer takes a slice of everything, including small profitable risks, commissions are frequently flat percentages of ceded premium and sometimes slide with the loss ratio, rising when results are good. Surplus treaty commissions tend to be lower or flatter, because the cedent already keeps 100% of the premium on its retained share of every risk and gives up nothing below the retention — the reinsurer is being paid mostly for capacity on the larger lines.

Reinsurance Exam Q&A: Treaty vs Facultative, Quota Share vs Excess of Loss

Source: <https://riskcoveragehub.com/reinsurance-exam-qa-treaty-facultative-definitions/> Published: October 1, 2026

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Direct answer: Treaty reinsurance is a standing agreement between a ceding insurer and a reinsurer under which the reinsurer automatically accepts (or automatically shares) defined classes of business written by the cedent during the treaty period, without reinsurance being negotiated policy by policy. It is the opposite of facultative reinsurance, which is placed one risk at a time. Treaty forms include proportional arrangements (quota share and surplus share) and non-proportional arrangements (excess of loss and aggregate excess of loss).

What is treaty reinsurance?

Treaty reinsurance is reinsurance governed by a **treaty**: a contract that sets the rules for how much business is ceded, how premiums and losses are shared or layered, and for how long the arrangement runs. Once the treaty is bound, eligible policies that meet the treaty's definitions are covered automatically when the cedent writes them, subject to any limits, exclusions, or retention stated in the treaty wording.

The ceding company (cedent) remains responsible to its policyholders; the reinsurer reimburses or assumes share according to the treaty. Treaty reinsurance is how most primary carriers manage capacity, stabilize results on a block of business, and align capital with underwriting appetite at scale. For carrier-level context on why reinsurance exists, see Reinsurance Fundamentals: How Carriers Transfer Risk.

Exam shorthand: if the question describes **automatic** cession of a **class** or **portfolio** under a master agreement, that is treaty reinsurance—not facultative placement on a single large risk.

Which of the following is true of treaty reinsurance?

On licensing and fundamentals exams, “true” statements about treaty reinsurance usually turn on a small set of facts. Use this checklist against multiple-choice options.

- **True:** Treaty reinsurance covers defined business automatically during the treaty term when policies fall within the treaty's scope (class, territory, limits band, etc.).
- **True:** The cedent and reinsurer negotiate terms once in the treaty; individual policies do not require separate reinsurance slips for each risk (unlike facultative).
- **True:** Treaty structures are commonly grouped as **proportional** (quota share, surplus share) or **non-proportional** (excess of loss, including aggregate forms).
- **True:** The cedent typically retains some portion of each risk (retention) or pays losses up to a deductible/layer attachment before reinsurance responds (non-proportional).
- **False (common distractors):** Treaty reinsurance is *not* “only for one policy,” “negotiated fresh for every loss,” or “always 100% ceded with no retention” unless the specific treaty type and wording say so (quota share can cede a fixed percentage, but surplus and XL treaties retain by design).

- **False:** Treaty reinsurance does not eliminate the cedent’s legal duty to policyholders; it transfers or shares insurance risk economically to the reinsurer per contract.

For treaty mechanics, commissions, and structure choice in practice, the long-form reference is Reinsurance Treaty: The Complete Guide.

Treaty vs facultative reinsurance

Facultative reinsurance is optional, individual, and transactional: the cedent offers a specific risk (or defined package), and the reinsurer accepts or declines. It is used for unusual exposures, line-size limits, or risks outside treaty scope.

Treaty reinsurance is portfolio-oriented: the reinsurer commits in advance to a rule set applied to all qualifying business written in the period.

Dimension	Treaty	Facultative
Unit of placement	Class / portfolio / layer program	Single risk (or defined sub-unit)
Timing	Automatic when eligibility met	After offer and acceptance per risk
Typical use	Core book, capacity, balance sheet relief	Facilities, jumbo limits, non-standard risks
Exam cue	“Master agreement,” “automatic cession”	“Offered and accepted,” “one policy”

Both can coexist on the same account: treaty handles the running book; facultative tops up what treaties exclude or cannot capacity. Broader professional framing appears in Reinsurance: The Complete Professional Guide (2026).

Quota share vs surplus share

Both are **proportional treaty** reinsurance: premium and losses are shared between cedent and reinsurer in fixed ratios once a risk is ceded.

Quota share treaty: The cedent cedes a constant percentage of every eligible policy (for example, 30% of premium and 30% of losses on all qualifying business). Retention is simply the complement (70% in that example). Quota share is simple, increases reinsurer share of the whole portfolio, and often pairs with a ceding commission to reimburse the cedent for acquisition and administration.

Surplus share treaty: The cedent retains a fixed dollar (or line) amount on each risk—its “retention line”—and cedes amounts above that retention in multiples of the line, up to treaty capacity. Surplus share cedes less on small risks (where retention covers the limit) and more on larger limits, so the ceded percentage varies by policy size even though the line structure is uniform.

Feature	Quota share	Surplus share
Ceded proportion	Same % on each eligible policy	Varies by insured limit vs retention line
Retention concept	Implicit (% not ceded)	Explicit per-risk line, then cede multiples
Exam distinction	“Fixed percentage of all business”	“Retention line,” “number of lines” ceded

Structure comparisons and when carriers pick quota share versus excess-of-loss layers are developed in Quota Share Reinsurance vs Excess of Loss (Treaty Structures).

Excess of loss: per-risk, per-occurrence, aggregate

Excess of loss (XL) treaties are **non-proportional**: the reinsurer pays only when a loss exceeds a stated threshold. Premium is not shared proportionally with losses in the same way as quota or surplus share; instead, the cedent pays reinsurance premium for capacity above retentions and deductibles.

Per-risk excess of loss (risk XL): Applies to each individual policy or each individual loss occurrence as defined in the treaty (exam questions often say “each and every loss”). The cedent retains losses up to the retention (deductible); the reinsurer pays the layer above, up to the limit.

Per-occurrence excess of loss (occurrence XL): Responds when total loss from one occurrence (one event) exceeds an attachment point. Common in property catastrophe programs where many policies are hit by one storm or earthquake. The unit of measurement is the **occurrence**, not each minor claim in isolation.

Aggregate excess of loss (aggregate XL): Protects the cedent when **total losses accumulated** in a period (often a treaty year) exceed an aggregate attachment. It is a backstop on frequency or an accumulation of retained losses after other reinsurance, not a substitute for understanding per-risk or per-occurrence towers.

Exam tip: “Proportional” means share premium and losses by ratio; “non-proportional” means pay only above attachment, usually for a defined limit. Aggregate XL adds “in the aggregate over the period” language.

Large natural-catastrophe accumulations and why occurrence towers matter for portfolios are discussed in Catastrophe Portfolio Management: Accumulation, PML.

What “treaty coverage” means in practice

Treaty coverage means a policy or loss falls within the operative treaty’s scope and is subject to its cession rules for the treaty period. “Covered by treaty” is not a policyholder-facing term on the dec page; it is an internal reinsurance accounting and claims-allocation concept.

In practice, treaty coverage implies:

- The risk meets treaty definitions (line of business, territory, policy form, size band).
- Cession applies automatically per quota, surplus, or XL wording—no separate facultative certificate is required unless the risk is specifically excluded or referred out.
- Premium ceded and loss recoveries are calculated per treaty articles (including reinstatements on XL, commissions on proportional treaties, and any reporting requirements).
- Business written outside scope stays on the cedent’s net account or needs facultative support.

Visual and narrative walkthroughs of how treaties fit carrier strategy appear in Reinsurance: Expert Video Analysis. Alternative risk transfer (including catastrophe bonds) sits outside standard treaty Q&A; treat it as a separate capital-markets tool, not a substitute for defining quota share versus XL.

Frequently asked exam questions

What is treaty reinsurance?

Treaty reinsurance is a standing agreement under which a reinsurer automatically accepts or shares defined classes of business written by a ceding insurer during the treaty period, according to fixed cession rules, without

negotiating reinsurance separately for each policy. Which of the following is true of treaty reinsurance?

True statements typically include automatic cession of eligible business under a master agreement, negotiation of terms once at treaty level, and use of proportional or non-proportional structures. It is not limited to a single policy, and it does not remove the cedent's obligations to policyholders. What does treaty coverage mean?

Treaty coverage means a policy or loss falls within the treaty's scope for the period and is ceded and settled under that treaty's proportional or excess-of-loss rules, rather than requiring facultative placement for that unit of risk. Quota share vs surplus share—which is which?

Quota share cedes a fixed percentage of every eligible policy's premium and losses. Surplus share cedes amounts above a per-risk retention line in multiples of that line, so the ceded proportion varies with policy limit while the line structure stays constant. Treaty vs facultative reinsurance—what is the difference?

Treaty reinsurance covers a defined portfolio automatically under one agreement. Facultative reinsurance is placed risk by risk, with the reinsurer accepting or declining each offered exposure. How does excess of loss differ from quota share?

Quota share is proportional: a set share of premium and loss on ceded business. Excess of loss is non-proportional: the reinsurer pays only when losses exceed an attachment point, up to a layer limit, whether measured per risk, per occurrence, or in the aggregate.

Parametric Insurance and Index-Based Risk Transfer: Automatic Payouts, Catastrophe Bonds, and the Future of Climate Risk Financing

Source: <https://riskcoveragehub.com/parametric-insurance-index-based-risk-transfer-catastrophe-bonds-2026/>

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Direct Answer: Parametric insurance pays when a published index hits a contract trigger—wind speed, peak ground acceleration, rainfall, temperature or degree-day indices—not when an adjuster finishes a building estimate, so cover can settle in days instead of months. **Basis risk** is the gap between the index and your actual loss; sponsors measure it with historical correlation and cat-model footprints, then manage it with blended stations, dual triggers, or conservative thresholds. A **catastrophe bond** is separate capital-markets risk transfer (indemnity, modeled loss, industry index, or parametric triggers); pair index design with catastrophe modeling when triggers are model-gated.

This guide does not quote a global parametric premium total; those figures move quickly and deal terms differ. For live cat-bond issuance, use sponsor offering circulars and market trackers. Verified market snapshots cited here are limited to sources named in the text.

What parametric cover is—and what it is not

Parametric (index-based) insurance is a contract that pays a pre-agreed amount when a published index meets a trigger defined in the policy or swap confirmation. The payout formula is known before the event: for example, \$10 million if sustained winds exceed 85 mph at Airport X, stepping up in bands as speed rises.

That is fundamentally different from indemnity property insurance, which pays (subject to limits, deductibles, and policy terms) based on proved physical damage and business interruption. Parametric cover can sit on top of traditional property programs, fill deductibles, or insure exposures that indemnity markets avoid—such as contingent business interruption tied to infrastructure failure.

Index-based risk transfer also appears outside insurance policies: catastrophe bonds, industry loss warranties (ILWs), and some reinsurance sidecars use triggers tied to models, industry loss indices, or physical parameters. The common thread is *objective measurement* rather than a full claims adjustment on every loss.

How parametric triggers are built and verified

A workable trigger needs three properties: an authoritative data source, a spatial rule (point, grid cell, catchment, or portfolio footprint), and a payout function investors and regulators can audit. Triggers are negotiated up front; changing them after binding is rare without a formal amendment.

Wind and hurricane indices

Hurricane parametric covers often reference maximum sustained wind or gusts from national weather services, reanalysis products, or commercial meteorology firms with documented QC. Triggers may use a single anemometer, a ring of stations, or model-derived fields when station coverage is thin. Coastal corporates and public entities use wind indices to unlock emergency liquidity while property adjusters are still in queue.

Earthquake: PGA and spectral indices

Earthquake triggers frequently use peak ground acceleration (PGA) or spectral acceleration at a reference site, published by seismic networks or specialized vendors. PGA triggers are simple to explain; spectral triggers align better with structural damage patterns but require more model literacy from buyers. Large industrial and municipal buyers pair parametric quake layers with traditional difference-in-conditions or high-deductible programs.

Rainfall, river stage, and flood proxies

Flood parametric structures may reference 24-hour or 72-hour rainfall totals, river gauge height, or composite “flood index” scores built from hydrology models. These are not a substitute for NFIP or private flood indemnity where insurable interest and mapping rules apply; they are liquidity tools when wet weather produces economic shock faster than claims files close. Keep FEMA and NFIP program documents current for overlap and compliance questions.

Temperature, frost, and degree-day indices

Agriculture, energy, and hospitality buyers use heating-degree-day (HDD) and cooling-degree-day (CDD) stacks, frost hours, or heat-index bands. Payouts may track revenue shortfall proxies rather than property damage. Basis risk here is often crop-yield or demand volatility that the index only approximates.

Basis risk: measurement and management

Basis risk is the possibility that the index fires (or fails to fire) while your actual loss differs—your plant floods but the rain gauge a mile away misses the bucket threshold, or wind at the airport triggers a payout while your roof stays intact. It is the main trade you make for speed and clarity.

Teams quantify basis risk by comparing historical index outcomes to loss experience, cat-model footprints, and geospatial correlation studies. Mitigations include multi-station blends, dual triggers (index plus capped indemnity), sub-limits tuned to model percentiles, and triggers set at conservative thresholds so payouts skew slightly “rich” relative to expected damage. Reinsurers and investors price basis risk into margins the same way they load uncertainty in climate-sensitive cat model updates.

Transparency beats marketing: if the index is a poor proxy for your asset, a parametric layer is the wrong instrument no matter how fast it pays.

Parametric versus indemnity structures

Dimension	Parametric / index	Indemnity
Payout driver	Published index vs trigger	Adjusted physical loss
Timing	Days to weeks	Weeks to months
Basis risk	Material; managed in design	Lower for covered property
Typical use	Liquidity, gap fill, non-damage BI	Asset replacement, liability

Many risk managers run indemnity first lines for insurable property, then parametric shells for deductibles, storm surge buffers, or regional events that would strain cash regardless of individual site damage. Underwriters still evaluate moral hazard and insurable interest; a parametric payout is not a license to skip mitigation.

Catastrophe bonds and index-based risk transfer

A catastrophe bond (cat bond) is a securitized reinsurance arrangement: investors provide collateral; if a defined trigger occurs, principal or coupon is transferred to the sponsor (often an insurer, reinsurer, or government vehicle). Triggers fall into four buckets that often get conflated with “parametric insurance” in headlines:

- **Indemnity trigger:** Pays based on the sponsor’s actual covered losses, subject to reporting and verification delays similar to reinsurance.
- **Modeled loss trigger:** Pays when a recognized cat model estimates industry or portfolio loss above a threshold given event parameters.
- **Industry index trigger:** Pays when a published industry loss index (for example PCS for U.S. wind) crosses a dollar threshold.
- **Parametric trigger:** Pays on physical indices (wind, quake, storm parameters) without waiting for loss development.

Sponsors choose triggers to balance basis risk, transparency for investors, and speed of recovery. Modeled and industry triggers lean on the same vendor ecosystems described in catastrophe portfolio management practice.

Market snapshot (H1 2026)

Artemis reporting for the first half of 2026 placed catastrophe bond issuance at a record of roughly **\$18 billion** across **83 transactions**, with outstanding market size near **\$65.6 billion** at mid-year. That pace reflects sponsor demand for multi-peril capacity, investor appetite for floating-rate collateral yields, and sponsors restructuring programs after several years of physical hazard repricing. It does not, by itself, prove parametric premium growth; it shows capital-markets risk transfer is absorbing peak peril volatility alongside traditional reinsurance treaties.

Sidecars, ILWs, and adjacent instruments

Sidecars are collateralized reinsurance vehicles that follow a sponsor's book; triggers are usually indemnity or experience-based, but some deals embed index features for quick settlement on defined events.

Industry loss warranties (ILWs) are bilateral contracts that pay when a third-party industry loss index exceeds a strike. They behave like zero-beta bets on industry totals and are common in broker-led retro markets.

Parametric policies, cat bonds, sidecars, and ILWs can sit in the same capital stack; the design question is whether you need provable asset damage, model consensus, industry aggregation, or a weather station reading to move cash.

Who buys parametric cover

- **Sovereigns and multilaterals:** Disaster liquidity, budget stabilization, and rapid relief funding tied to objective triggers.
- **Corporates and utilities:** Deductible fill, network outage buffers, supply-chain shock layers where property policies lag.
- **Insurers and reinsurers:** Retrocessional covers, named-event caps, and balance-sheet protection using indices when loss development is slow.
- **Public entities and pools:** Hurricane and flood shock layers complementing traditional property and FEMA/NFIP programs; regional payment volumes illustrate how fast cash need materializes—FEMA Region 6 disbursements tracked on this desk at **\$141.6 million** show the scale public finance faces while indemnity programs catch up.

Speed, liquidity, and claims mechanics

Once the index is published and verified per contract, settlement is largely arithmetic: no field inspection chain for the full limit. That supports payroll, debris removal, and supplier deposits while property claims teams document damage. Liquidity advantage is real; it is not free—basis risk and trigger calibration are the price.

Reinsurance and ILS investors still care about loss creep on indemnity structures; parametric tranches remove creep but introduce index mismatch headlines after every near-miss event.

Regulatory and accounting treatment

In the United States, parametric products may be issued as admitted insurance, surplus-lines cover, or capital-markets instruments depending on sponsor and form. State regulators expect clear trigger documentation, data vendors disclosed, and consumer-facing language on basis risk. The NAIC continues to refine catastrophe and climate-related data calls; carriers reporting under evolving surveys should align disclosures with underlying trigger mechanics, not only indemnity reserves.

Accounting treatment follows contract form: insurance contracts vs derivatives vs embedded protection in captives. Risk managers loop in controllers early so a fast parametric payout does not collide with hedge documentation or loan covenants.

Where the market is heading

Three forces keep index-based transfer expanding: sharper physical hazard signals in underwriting, sponsor demand for faster liquidity after billion-dollar seasons, and capital markets capacity when traditional reinsurance tightens in a hard market.

Expect more hybrid triggers (parametric plus modeled loss gates), finer grid-level rainfall products, and public-private structures that pay on index while indemnity programs handle structure-by-structure recovery. The limiting factor is not modeling horsepower—it is honest basis-risk communication to boards, rating agencies, and communities that still measure success in rebuilt homes, not only in triggered swaps.

Frequently asked questions

Does parametric insurance replace my property policy?

No. Parametric cover pays on an index, not on a scoped building estimate. Most owners keep indemnity property insurance for asset damage and use parametric layers for deductibles, liquidity, or risks the property form does not address well.

What is basis risk in one sentence?

Basis risk is the mismatch between your actual loss and the index payout—either you get paid without major damage or you suffer damage without a trigger.

How is a catastrophe bond different from parametric insurance?

A cat bond is a capital-markets security whose investors may forfeit principal when triggers hit; a parametric insurance policy is an insurance contract paying a beneficiary. Both can use physical indices, but legal form, regulation, and counterparty risk differ.

Who verifies the data that triggers a payout?

The contract names a calculation agent—often a broker, calculation agent bank, or designated data vendor—and the verification steps (final readings, QC, dispute windows). Buyers should read that appendix before binding.

Why buy parametric cover if I already reinsure catastrophe?

Reinsurance is often indemnity-linked and follows loss reporting; parametric layers can pay before loss development finishes, stabilizing cash during the first weeks of a regional event.

Are cat-bond issuance records the same as parametric market size?

No. Record issuance reflects ILS capacity for many trigger types; only a subset is fully parametric. Use deal circulars for structure, not headlines alone.

Reinsurance: Expert Video Analysis

Source: <https://riskcoveragehub.com/video-reinsurance/> Published: March 18, 2026

Risk Coverage Hub > Reinsurance > Video Resource

Updated October 6, 2026.

Direct answer: Reinsurance is insurance for insurers: carriers cede premium and loss to reinsurers via treaty programs (automatic) or facultative placements (risk-by-risk), using proportional or non-proportional structures. That backstop drives capacity, attachment points, and renewal pricing that flow through to commercial property buyers.

Source information

Channel: P & C Insurance Helpline

Duration: 8m 4s

Original publish: March 14, 2022

Topic: Reinsurance mechanics for P&C professionals

Why watch this first

The embed walks treaty versus facultative placement, proportional versus non-proportional structures, and why reinsurance sits behind many primary policies. Pair the video with our reinsurance fundamentals for policyholders if you need the cedent-to-policyholder chain in one pass.

What this video covers

The walkthrough covers treaty versus facultative placement, quota share and surplus sharing, and excess-of-loss towers with retentions and limits—a solid baseline before renewal or program design reading.

Key moments

Time	Topic	What you will learn
0:00	Introduction	Why insurers buy reinsurance and how cessions flow
~2:00	Treaty vs facultative	Automatic portfolio covers compared with individual risk submissions
~4:00	Proportional structures	Quota share and surplus arrangements split premium and loss
~6:00	Non-proportional covers	Excess of loss, retentions, and limit stacks

Reinsurance (working definition)

A contract where a reinsurer accepts defined exposure from a ceding insurer in exchange for premium. Treaties run on agreed terms for a class of business; facultative reinsurance is negotiated per risk. Retrocession is the same idea one layer up, when reinsurers cede to other reinsurers or capital markets vehicles.

Key takeaways

- Treaty reinsurance is the default engine for portfolio transfer; facultative fills outliers, large limits, or unusual exposures.
- Quota share and surplus treaties are proportional; excess of loss and aggregate covers are non-proportional and drive cat tower design.

- Retrocession and multi-layer programs spread peak zones so no single balance sheet holds the entire tail.
- Alternative capital, including catastrophe bonds and collateralized reinsurance, now sits beside traditional treaty panels on many programs.
- January 1 and mid-year renewals reprice those layers; cedent retentions and attachment points move when loss years or capacity tighten.

Market context (through mid-2026)

Property cat reinsurance stays selective after heavy loss years, though January 2026 brought steadier pricing on many U.S. regional programs than the 2023–2024 repricing. Reinsurers still tighten aggregate terms and excess layers when severity trends run hot.

Artemis tracked about \$17.98 billion of new cat bond and ILS issuance across 83 deals in H1 2026, with outstanding cat bond market size near \$65.6 billion at end-June. Sponsors pair that collateralized capacity with traditional treaties; see parametric and index-based risk transfer for trigger mechanics versus indemnity covers.

Lloyd’s, Bermuda, and the January 1 cycle still anchor much U.S. property treaty business—see our global market and January renewal guide. For forms in the video, use the quota share versus excess of loss comparison.

Standards and references

Source	Use
Reinsurance Association of America	Industry advocacy and education on reinsurance practice
Artemis.bm	Cat bond issuance and outstanding market tracking (H1 2026)
Insurance Information Institute	Plain-language insurance and reinsurance explainers

Related reading on Risk Coverage Hub

Complete professional guide

Reinsurance: The Complete Professional Guide (2026)

Treaty negotiations

Reinsurance Treaty: Structures, Negotiations, and 2026 Market Terms

Key terms glossary

Treaty reinsurance Standing agreement covering a defined portfolio under preset terms without per-risk approval.

Facultative reinsurance Single-risk or single-policy cession where the reinsurer accepts or declines each submission.

Quota share Proportional treaty: reinsurer takes a fixed percentage of premium and losses on ceded business.

Excess of loss (XOL) Non-proportional cover for losses above a retention up to a contract limit, often layered.

Retrocession Reinsurance bought by a reinsurer to cap its own accumulation on a treaty or event.

Alternative capital / ILS Cat bonds and collateralized vehicles that transfer specified risks to capital markets investors.

Frequently asked questions

Does reinsurance change what my property policy says?

Reinsurance contracts sit between your insurer and its reinsurers. Your declarations page and endorsements still govern your coverage, limits, and deductibles. Reinsurance matters to you when it affects whether your carrier can keep capacity in your region, how much limit they can offer, and how renewal pricing moves after large industry loss years.

What is the difference between treaty and facultative reinsurance?

Treaty reinsurance automatically covers an agreed book of business under set terms for a policy year. Facultative reinsurance is line-by-line: the reinsurer evaluates each risk before binding. Carriers use treaties for scale and facultative covers for exceptional exposures, jumbo limits, or risks that fall outside treaty scope.

How do quota share and excess of loss treaties differ?

Quota share is proportional: the reinsurer shares a set percentage of premium and losses from the ceded portfolio. Excess of loss is non-proportional: the cedent keeps losses up to a retention, and the reinsurer pays defined layers above that point up to stated limits. Many property programs combine proportional core treaties with XOL cat towers.

What are cat bonds and how do they relate to traditional reinsurance?

Catastrophe bonds are insurance-linked securities that pay investors until a defined trigger event occurs, at which point principal may be used to fund the sponsor's losses. They complement traditional reinsurance by adding collateralized capacity, often alongside treaty and retrocession layers. First-half 2026 set issuance records, which keeps alternative capital visible on many renewal panels.

Why do January renewals get so much attention?

A large share of global property and casualty treaty programs renew on January 1, especially business written through Lloyd's and Bermuda markets. Pricing, retentions, and attachment points set at that renewal flow into primary rate filings and capacity decisions over the following quarters. Mid-year renewals matter for accounts on non-standard dates but January sets the tone for many U.S. property cat programs.

Global Reinsurance Market: Lloyds, Bermuda, and the January 1 Renewal Cycle

Source: <https://riskcoveragehub.com/global-reinsurance-market-lloyds-bermuda-january-renewal/> Published: March 17, 2026

Updated October 6, 2026.

The global reinsurance market is a small set of large, highly rated carriers and marketplaces—Lloyd's syndicates, Bermuda catastrophe reinsurers, European groups such as Munich Re and Swiss Re, and major U.S. reinsurers—that supply most treaty-renewal capacity. Pricing and contract terms for North American property

catastrophe programs are set chiefly at the January 1 renewal; Florida and Southeast hurricane layers often reset on June 1. Alternative capital—catastrophe bonds, broader insurance-linked securities (ILS), sidecars, and collateralized reinsurance—now sits alongside traditional equity and strongly influences available limit and price.

Market structure at a glance

Reinsurance capacity is concentrated. A handful of European reinsurance groups, the Lloyd's marketplace, Bermuda carriers, and large U.S. reinsurers underwrite most treaty business ceded by primary insurers worldwide. Brokers—chiefly Aon, Guy Carpenter, Gallagher Re, and Willis Re—run the renewal process, assemble placement slips, and publish the market commentary primary underwriters build business plans around.

Capital arrives through traditional shareholder equity at rated reinsurers and through parallel channels: listed and private ILS funds, catastrophe bonds, sidecars, and fully collateralized reinsurance trusts. Those channels matter because they often fill the highest layers of property catastrophe programs—the same layers that determine whether a regional carrier can grow coastal property or must shrink limits after a bad loss year.

Lloyd's of London

Lloyd's is the world's best-known specialist market: competing syndicates underwrite defined portfolios through Lloyd's brokers, each capitalized by members and run by a managing agent. Syndicates co-insure large risks by line size; the Central Fund stands behind market obligations if a syndicate fails.

Underwriting performance is measured by the combined ratio (incurred losses plus expenses divided by earned premium). Lloyd's reported a strong combined ratio near 84% for 2023 on hard-cycle rates and moderate cat activity; Hurricane Milton (October 2024) and the January 2025 Los Angeles wildfire losses then pressed 2024–2025 results and fed into the January 1, 2026 renewal and the upcoming January 1, 2027 cycle.

Lloyd's remains the default market for unusual or capacity-constrained risks that do not fit standard admitted paper—often alongside the surplus lines (E&S) market on the primary side. How ceded programs are shaped before reaching reinsurers: catastrophe portfolio management, accumulation control, and reinsurance design.

The Bermuda market

Bermuda became a catastrophe reinsurance hub after successive capital shocks—Hurricane Andrew (1992), the September 11 attacks (2001), and the 2005 hurricane season—each spawned new carriers and investors willing to back U.S. wind and earthquake layers. After the 2017–2022 loss years and investment volatility, the “Class of 2022” (including Vantage Risk and Conduit Re) added on the order of \$5 billion in new Bermuda capacity—smaller than 2001 because traditional markets repriced faster and alternative capital was already active.

The Bermuda Monetary Authority supervises large commercial reinsurers under the Bermuda Solvency Capital Requirement framework, which European regulators treat as Solvency II-equivalent for group supervision purposes. That equivalence matters for placement: Bermuda carriers can participate in EU and UK reinsurance markets on level terms with Munich, Swiss Re, and Hannover without structuring every deal as cross-border surplus lines business.

European and U.S. reinsurers

European groups anchor global capacity. Munich Re, Swiss Re, Hannover Re, and SCOR remain among the largest premium writers, with diversified books across property, casualty, and specialty lines. They participate heavily in January 1 property cat placements and often lead terms on multi-region treaties.

U.S.-domiciled reinsurance capacity sits inside large P&C groups—General Re at Berkshire Hathaway, Everest Group, and reinsurance units of global insurers such as AXA XL—as well as Bermuda affiliates writing U.S. risk, competing with Lloyd’s and Bermuda pure-play cat writers for the same excess-of-loss towers described in quota share versus excess-of-loss treaty structures.

Alternative capital: cat bonds, ILS, sidecars, and collateralized reinsurance

Alternative capital is no longer marginal. According to Artemis, catastrophe bond issuance reached a record of roughly \$18 billion in the first half of 2026 across 83 transactions Artemis tracked; outstanding cat bond market size hit about \$65.6 billion at June 30, 2026. That pipeline lets sponsors replace or expand upper-layer protection without relying solely on rated reinsurer balance sheets.

Sidecars and collateralized reinsurance give investors a pro-rata share of specified treaty business with collateral posted against liabilities. They scale up quickly when spreads widen after a dislocation and scale down when returns compress—amplifying hard/soft market swings when carriers treat ILS capacity as a permanent substitute for equity-backed reinsurance. Index-based and parametric structures overlap this market; for payout mechanics and cat bond structure, see parametric insurance, index-based risk transfer, and catastrophe bonds.

January 1 renewal dynamics and recent cycles

The January 1 renewal is when most calendar-year primary insurers replace expiring property catastrophe reinsurance. Brokers negotiate per-layer rate changes, retentions, aggregate limits, reinstatements, and exclusions—setting the reference point for midyear renewals and facultative follow-ons. The industry’s next synchronized global date is **January 1, 2027**.

January 2023 dislocation

January 2023 remains the reference hard renewal of the current cycle: U.S. property catastrophe excess-of-loss rates rose roughly 30–50% on average, Florida-exposed layers often 50–100%, and some peak-zone Florida placements could not be filled at any price. Drivers included cumulative 2017–2022 cat losses, 2022 interest-rate pressure on portfolios, revised secondary-peril views, and Florida claims and litigation friction—feeding the primary-market hard conditions of 2023–2024, consistent with broader hard market versus soft market dynamics.

Renewals after 2024–2025 losses

Large 2024 and early 2025 events kept cat budgets and capital discussions active into the January 1, 2026 renewal, even as record cat bond issuance added deployable limit. Broker and ILS commentary through mid-2026 described strong demand for property cat protection alongside gradual softening in some traditional layers—a mixed picture where aggregate terms and sub-limits often mattered as much as headline rate change. Physical hazard repricing on primary lines continues in parallel; see climate risk and insurance pricing in 2026 for how hazard trends show up outside reinsurance towers.

June 1 and the rest of the calendar

June 1 renewals concentrate Florida and Southeast hurricane treaties. Pricing reflects wind modeling output plus legal environment, assignment-of-benefits history, and insurer-of-last-resort depopulation plans. A flat January 1 for national carriers does not guarantee a flat June 1 for coastal writers.

Frequently Asked Questions

How does Lloyd's of London work as a reinsurance market?

Lloyd's of London is a specialist insurance and reinsurance marketplace—not one company, but roughly 75 competing syndicates, each managed by a Lloyd's-approved managing agent and backed by members who supply capital. Risks reach syndicates through Lloyd's brokers; large placements are often split across several syndicates by signed line. The Lloyd's Central Fund backstops policyholder payments if a syndicate cannot meet its obligations. Lloyd's remains a leading venue for complex property, specialty, and non-standard reinsurance, with market premiums above £52 billion in recent years.

What is the January 1 reinsurance renewal cycle?

January 1 is the anchor date for most North American and European property catastrophe reinsurance treaties tied to calendar-year primary programs. Rate changes, attachment points, hours clauses, and aggregate terms negotiated at January 1 set the benchmark brokers report for the rest of the year; the next major industry renewal date is January 1, 2027. June 1 is the second critical date for Florida and Southeast U.S. hurricane-exposed treaties ahead of the Atlantic season. Broker market reports from Aon, Guy Carpenter, Gallagher Re, and Willis Re track pricing by peril and region through both cycles.

Who are the major global reinsurers?

European groups still dominate by premium volume: Munich Re, Swiss Re, Hannover Re, and SCOR among the largest. Bermuda supplies a large share of U.S. catastrophe capacity through carriers such as RenaissanceRe, Arch Capital, Axis Capital, Everest Group, and Markel, plus Class-of-2022 vehicles (for example Vantage Risk and Conduit Re). Lloyd's syndicates collectively provide tens of billions of pounds of annual capacity. Major U.S.-domiciled reinsurers include General Re (Berkshire Hathaway) and units within large P&C groups such as AXA XL.

How do catastrophe bonds and ILS affect reinsurance capacity?

Catastrophe bonds and other ILS structures bring third-party capital into the same peak peril layers reinsurers traditionally underwrite. Strong issuance lets sponsors place more limit off balance sheet, supporting overall capacity even when traditional reinsurer appetite is flat. Artemis tracked record first-half 2026 cat bond issuance of roughly \$18 billion across 83 transactions and an outstanding market of about \$65.6 billion at mid-year 2026. Sidecars and collateralized reinsurance let investors take a defined share of a reinsurer's treaty book with collateral posted up front—speeding capital deployment after a hard market but exiting quickly when returns soften.

Why does the June 1 renewal matter for U.S. property programs?

Many Florida-focused and Southeast hurricane treaties renew June 1 so terms align with the Atlantic hurricane season rather than the calendar year. June pricing reflects Florida litigation trends, coastal wind aggregates, and

any loss activity from the early season. A strained June renewal can tighten coastal primary capacity even when January 1 global cat pricing looks stable.

What should risk managers watch before the January 1, 2027 renewal?

Track broker commentary on property catastrophe rate changes, attachment point inflation, co-participation requirements, and whether reinsurers are narrowing hours clauses or excluding specific secondary perils. Monitor alternative capital inflows—record cat bond issuance can mask tightening on traditional treaty paper. Large recent losses, including 2024 Hurricane Milton and early 2025 California wildfire activity, still affect some carriers' capital and appetite, showing up in renewal pricing and capacity on commercial property programs.

Quota Share Reinsurance vs Excess of Loss (Treaty Structures)

Source: <https://riskcoveragehub.com/reinsurance-treaty-structures-quota-share-excess-of-loss-aggregate/>

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Direct Answer: **Quota share** is proportional reinsurance: the reinsurer takes a fixed percent of every premium and every loss from the first dollar, and typically receives a ceding commission. **Excess of loss** is non-proportional: the reinsurer pays nothing until a stated retention or attachment is exceeded. A **reinsurance treaty** automatically covers a defined class of business; **facultative** cover is placed one risk at a time.

This guide compares the treaty structures property and casualty carriers use most often—quota share, surplus share, and the excess-of-loss family—so you can read a slip, a renewal briefing, or a captive program design with the vocabulary straight. For negotiation context and program layering, see the reinsurance treaty complete guide.

Proportional vs non-proportional treaties

Reinsurance treaties fall into two families. **Proportional** treaties share premium and loss in fixed or formula-driven ratios from the first dollar. **Non-proportional** treaties leave the cedent bearing losses up to a retention; the reinsurer responds only above that point, usually up to a limit.

Proportional cover smooths results and brings capacity plus ceding commission economics. Non-proportional cover buys peak protection on large losses, catastrophe occurrences, or bad underwriting years without giving up a slice of every small claim.

Quota share

Under a **quota share**, the cedent cedes an agreed percentage—often 20%, 30%, or 50%—of premium and losses on every policy in the treaty scope. The reinsurer pays its share of claims from dollar one. In return, the cedent typically receives a **ceding commission** to help cover acquisition and administration costs.

Quota share is common when a carrier needs balance-sheet relief, wants to grow premium with reinsurer backing, or is building a new line and wants proportional support on the whole portfolio. The tradeoff is margin: you share underwriting profit as well as loss, and your net retention on any one account is smaller.

Surplus share

Surplus share is proportional, but the cession percentage is not flat. The cedent keeps a **retained line** (a standard amount of sum insured on each risk). Premium and loss on amounts above that line are ceded in multiples of the line—often expressed as “lines” of surplus. A risk within the retained line may stay 100% net; a larger risk cedes a higher share.

Surplus share fits commercial property and liability programs where limits vary by account but the carrier wants a consistent retention per risk. It differs from quota share, where even small policies are ceded at the same percentage.

Excess of loss structures

Excess of loss (XL) treaties do not split every dollar. The cedent retains losses up to an **attachment point** (or retention). The reinsurer pays eligible loss above that point, subject to a per-risk, per-occurrence, or aggregate **limit**. How attachment and limit are stated—dollars, percentages of subject premium, or loss ratio—defines the structure.

Per-risk (working) excess of loss

Per-risk XL attaches to a single policy or risk. One large fire loss on one insured location can trigger the layer while smaller claims on other policies do not. Underwriters sometimes call this **working XL** because it sits close to primary limits on heavy industrial, aviation, or other peak exposures.

Per-risk XL is about severity on one account, not aggregation across a book. Retentions and limits mirror primary policy thinking—the same financial terms policyholders see on declarations pages, applied one layer up.

Catastrophe excess of loss and “occurrence”

Catastrophe XL (cat XL) responds to an **occurrence**: one event that produces loss across many policies in the treaty territory or portfolio. The contract defines what counts as one occurrence—storm hours clauses, earthquake shock definitions, and similar language matter as much as the attachment dollar.

Cat XL limits are often reinstated after a loss. A **reinstatement** restores part or all of the limit for later occurrences in the treaty year; the cedent usually pays a reinstatement premium, commonly tied to the original premium and the fraction of limit restored. Multiple reinstatements may be allowed at full or pro-rata cost.

Designing cat XL requires knowing where losses pile up. Catastrophe modeling and catastrophe portfolio management are the practical inputs; the treaty words only implement what the portfolio analysis already showed.

Aggregate stop-loss

Aggregate stop-loss protects the cedent’s result over a treaty year, not a single claim or event. Once net losses cross an aggregate attachment—stated as a **loss ratio**, a dollar aggregate, or both—the reinsurer pays eligible loss above that point, up to an aggregate limit.

Carriers use aggregate covers when frequency or medium-sized losses threaten the year, or when they want a backstop after proportional treaties and per-risk XL. It is underwriting-result reinsurance; it does not replace cat XL for tail events unless the aggregate terms are written to capture them (unusual and carefully negotiated).

Treaty vs facultative reinsurance

A **treaty** is automatic: every qualifying policy written in the class during the term is covered without individual submission, subject to treaty exclusions, retentions, and special acceptances. **Facultative** reinsurance is optional placement on one risk—used for oversize limits, non-standard hazards, or exposures outside treaty scope.

Most commercial programs run treaty first and facultative for exceptions. A property owner rarely sees the treaty layer directly, but primary policy limits and insurer solvency still depend on how cleanly those structures fit together.

Market and public-sector context (2026)

Reinsurance pricing and capacity still follow the underwriting cycle. When cat layers tighten or attachment points rise, that flow shows up in primary terms; the hard market vs soft market frame explains how that transmission works.

Alternative capital remains active. Industry trackers put first-half 2026 catastrophe bond issuance at roughly **\$18 billion** (about \$17.98 billion on commonly cited deal directories)—a record first half—with outstanding cat bond market size near \$65 billion at mid-year. That depth supports collateralized reinsurance and sidecar structures that compete with traditional treaty capacity on peak perils; mechanics overlap with index triggers and bond markets described in the parametric insurance and catastrophe bonds guide. Model and rate filings continue to reflect escalating natural disaster loss trends; carrier filings tie back to climate risk pricing and catastrophe model updates.

On the regulatory side, state insurance departments continue to align statutory reinsurance credit with collateral rules for unauthorized reinsurers. NAIC statutory accounting work in 2026 clarified SSAP No. 61 treatment of derecognized interest maintenance reserve in collateral calculations for applicable life and health reinsurance—positive IMR increases required collateral; negative IMR does not reduce it under the asymmetrical approach adopted in 2026. Details sit in NAIC meeting materials at content.naic.org.

FEMA's NFIP uses both traditional reinsurance and capital-markets placements. FloodSmart Re catastrophe bonds issued in 2022–2024 remain in force on published schedules (for example, the 2024 placement runs through March 2027 on FEMA's reinsurance program page). Industry reporting notes loss development from 2024 hurricane Helene affecting some older NFIP cat bond tranches while higher attachments on newer issues may not be triggered—illustrating how occurrence-based ILS differs from indemnity treaties. Program documentation is on FEMA's NFIP reinsurance page. NFIP pricing under Risk Rating 2.0 remains the fully implemented rating methodology on [FEMA.gov](https://www.fema.gov); it is separate from treaty wording but shapes flood premium and demand for private flood markets.

Frequently asked questions

What is the difference between quota share and excess of loss reinsurance?

Quota share is proportional: the reinsurer takes a fixed percentage of every premium and every loss from the first dollar, usually in exchange for a ceding commission. Excess of loss is non-proportional: the reinsurer pays only when a single loss, occurrence, or aggregate result exceeds a stated retention or attachment point.

When should a cedent use surplus share instead of quota share?

Surplus share is still proportional, but the ceded percentage varies with how many times the sum insured exceeds the cedent's retained line. It fits accounts where limits differ by risk but the cedent wants a standard retention on each policy rather than ceding a flat share of every account.

How do per-risk XL and catastrophe XL differ?

Per-risk excess of loss attaches to one large policy or risk—often called working XL. Catastrophe XL attaches to an occurrence: one event that triggers losses across many policies. The treaty defines what counts as one occurrence and how event definitions or hours clauses apply.

What is aggregate stop-loss reinsurance?

Aggregate stop-loss covers the cedent's net losses over a treaty year once a cumulative attachment is breached. The attachment may be stated as a loss ratio, a dollar aggregate, or both. It protects underwriting results, not a single claim.

What is the difference between treaty and facultative reinsurance?

A treaty automatically covers an agreed class of business written during the term, subject to exclusions and retentions stated in the contract. Facultative reinsurance is negotiated risk by risk, typically for unusual limits, hazardous locations, or exposures outside the treaty's scope.

Reinsurance Fundamentals: How Carriers Transfer Risk and Why It Matters for Policyholders

Source: <https://riskcoveragehub.com/reinsurance-fundamentals-carriers-transfer-risk-policyholders/>

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Updated October 6, 2026.

Direct answer: Reinsurance is how primary insurers transfer part of the risk they sold to policyholders onto professional reinsurers through treaty or facultative contracts—proportional shares (quota share, surplus share) or non-proportional layers (excess of loss, aggregate excess of loss)—and sometimes onward via retrocession. Policyholders do not buy reinsurance directly, but it governs how much capacity carriers can deploy, what they charge, and what happens to recoveries if a carrier fails.

Most buyers never see a reinsurance slip. They should still understand the chain: every large property or liability program a carrier writes is usually reinsured in the background. When that backstop shrinks or gets expensive, the primary market tightens first. For a wider map of the field, see the Reinsurance: The Complete Professional Guide (2026).

The Reinsurance Transaction

Two insurers, one insured. The **cedent** (ceding company) has already promised to pay the policyholder under the primary policy. It pays a **reinsurance premium** to the **reinsurer** (assuming company), which agrees to fund defined claim recoveries. Triggers come from the treaty or facultative certificate: proportional treaties pay a set percentage of every qualifying loss; non-proportional covers pay when losses pierce an attachment point or exhaust a retention.

Privity runs cedent-to-reinsurer. The policyholder is not a party to the reinsurance contract. If the cedent becomes insolvent, reinsurance recoveries typically belong to the estate for distribution through the insolvency process—not a separate check from the reinsurer to each policyholder.

Definition — Cut-through endorsement

A provision—sometimes endorsed on the primary policy or referenced in the reinsurance treaty—that lets the policyholder pursue named reinsurers directly if the cedent cannot pay, usually after insolvency. Availability varies by market and line; it is more common on large commercial and specialty placements than on standard homeowners business.

Carriers buy reinsurance for four practical reasons. **Capacity** lets a cedent write more gross premium while keeping net retention within capital limits. **Catastrophe protection** caps net loss from a single event or a bad season. **Financial stability** smooths results when loss years cluster. **Portfolio management** trims unwanted concentrations after cession.

Treaty vs. Facultative Placement

Treaty reinsurance is automatic cession of defined business under annual or multi-year terms. The reinsurer prices the cedent's underwriting and portfolio mix; it does not re-underwrite each certificate at bind. Treaties may be proportional (sharing premium and loss from dollar one on ceded policies) or non-proportional (responding only above retentions).

Facultative reinsurance is placed one risk at a time. The cedent submits an account—often high total insured value, heavy catastrophe exposure, or an occupancy outside treaty eligibility—and negotiates shares with facultative markets. When facultative support disappears, primary carriers cannot always hold the full limit; buyers see declinations, reduced limits, or referral to residual markets.

Treaty design—attachment, hours clause, reinstatements, exclusions—is where cedents and reinsurers allocate tail risk. See Quota Share Reinsurance vs Excess of Loss (Treaty Structures) for common forms.

Proportional vs. Non-Proportional Structures

Proportional (pro rata) reinsurance

Quota share cedes a fixed percentage of every policy in a class—simple capacity relief, but the cedent gives up the same margin on good business as on bad. **Surplus share** cedes amounts above a per-risk retention (the “line”), preserving more profitable small accounts while offloading peak limits on large properties.

Non-proportional reinsurance

Per-occurrence excess of loss attaches above a retention on a single event. **Aggregate excess of loss** attaches after ceded losses stack across many events in a treaty year—useful when frequency, not one headline cat, threatens surplus.

Cedents stack layers: quota or surplus for baseline sharing, cat XL for peak per-event loss, aggregate XL for year-long accumulation. Layer design tied to net retention and peak zones is covered in Catastrophe Portfolio Management: Accumulation Control, PML Management, and Reinsurance Design.

Retrocession

Retrocession is reinsurance purchased by a reinsurer to cede part of its assumed portfolio to other reinsurers (retrocessionaires). It spreads peak zones and single-risk accumulations and can free capacity for the next underwriting season. Policyholders still deal only with their carrier unless direct-access clauses exist; failures at any link flow through contracts and insolvency law.

Alternative Capital in the Reinsurance Stack

Catastrophe bond issuance reached roughly \$18 billion across 83 transactions in the first half of 2026, with outstanding cat bond market size near \$65.6 billion at mid-year (Artemis)—capital that often backs reinsurance and retrocession layers. Parametric and index-based structures pay on objective triggers instead of indemnity adjustment on each policy. When alternative capital is eager, reinsurance terms soften; when investors demand higher spreads, cedents pay more for the same net protection. See Parametric Insurance and Index-Based Risk Transfer for index triggers vs indemnity reinsurance.

Why Reinsurance Matters for Policyholders

Reinsurance premium is a real cost inside primary rates—especially on catastrophe-exposed property. Cedents cannot absorb a permanent step-up in reinsurance pricing without moving primary rates, deductibles, or underwriting guidelines. In a hard market, tighter reinsurance shows up as non-renewals, reduced capacity in coastal and wildfire-prone counties, and more business in state residual plans.

Reinsurance also shapes outcomes when the carrier is stressed: recoveries fund claim payments and surplus restoration. When the carrier fails, understanding whether reinsurance is collectable only by the estate—and whether cut-through exists—belongs in the same review as primary policy language in *How to Read an Insurance Policy*.

Buyers cannot negotiate treaty attachments, but they can influence facultative exposure (values reported, loss control, deductible selection) and choose carriers with stable net retentions. That diligence matters most where one event can drive both a property claim and a carrier balance-sheet shock.

Frequently Asked Questions

What is reinsurance and how does the basic transaction work?

Reinsurance is insurance bought by a primary carrier (the cedent) from another insurer (the reinsurer) to transfer part of the risk the cedent assumed from policyholders. The cedent pays a reinsurance premium; the reinsurer pays recoveries when ceded claims meet the contract's triggers—either a fixed share of every loss (proportional) or losses above a retention (non-proportional). The policyholder remains the cedent's customer. Under ordinary privity rules, the reinsurer owes the cedent, not the policyholder; if the cedent fails, recoveries flow to the estate unless a cut-through or similar arrangement applies.

What is the difference between treaty and facultative reinsurance?

Treaty reinsurance is a standing agreement: the cedent automatically cedes defined classes of business and the reinsurer accepts the portfolio under treaty terms without underwriting each policy individually. Facultative reinsurance is placed one risk at a time—the cedent submits a specific account, the reinsurer underwrites it, and participation is negotiated case by case. Treaties carry most premium volume; facultative covers oversize exposures, unusual hazards, and risks excluded from treaty programs.

How do proportional and non-proportional reinsurance differ?

Proportional reinsurance splits premium and losses between cedent and reinsurer at a set percentage—quota share cedes a fixed share of every policy in a class; surplus share cedes amounts above a line the cedent retains per risk. Non-proportional reinsurance pays only when losses exceed thresholds—per-occurrence excess of loss caps the cedent’s retention on a single event; aggregate excess of loss responds when many smaller losses or an accumulation breach an annual attachment. Primary carriers combine both to manage net retention, surplus strain, and catastrophe peaks.

What is retrocession?

Retrocession is reinsurance of reinsurance. A reinsurer that has assumed large or concentrated exposures cedes part of its portfolio to other reinsurers (retrocessionaires) to limit its own net loss, meet internal capital targets, or diversify peak zones. Retrocession sits behind the primary policy chain; policyholders still deal only with their carrier unless special direct-access clauses exist.

Why should property owners and risk managers care about reinsurance?

Reinsurance cost and capacity sit inside primary pricing and underwriting appetite. When reinsurers tighten terms or raise prices, cedents retain more net risk, raise rates, restrict new business in concentrated catastrophe areas, or exit lines they cannot reinsure economically—policyholders see that as higher premiums, tougher deductibles, or fewer carrier options. Reinsurance also affects solvency: standard recoveries run to the cedent, so understanding cut-through and guaranty-fund limits matters for large commercial placements.

Can a policyholder collect directly from a reinsurer after a loss?

Usually no. The reinsurance contract is between cedent and reinsurer; the policyholder’s claim runs against the primary policy. A cut-through endorsement (where available) can grant the policyholder a direct recovery right against named reinsurers if the cedent becomes insolvent. That is uncommon on standard personal lines and more relevant on large commercial or specialty placements where buyers negotiate security.

Surplus Lines Insurance: E and S Market Access, Regulation, and Policyholder Considerations

Source: <https://riskcoveragehub.com/surplus-lines-insurance-es-market-access-regulation-policyholder/>

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Direct answer: Excess and surplus lines (E&S) insurance covers risks the admitted market will not write under its filed rules—through licensed surplus lines producers, using nonadmitted carriers on your home state’s eligibility list. You trade state guaranty fund protection for flexibility and capacity; in the 2026 hard market, that trade shows up most often on catastrophe-exposed property and specialty liability where admitted capacity is full.

The E&S market is where property owners, contractors, and risk managers land when standard carriers say no—or when the limit, form, or binding timeline cannot be met in the admitted market. Nonadmitted carriers skip rate and form filing in the states where the risk sits; instead, state insurance regulation focuses on the licensed surplus lines producer, premium tax, stamping offices where they exist, and the home-state eligibility

list. If you buy E&S without understanding that structure, you may accept credit risk and policy language you would never accept on an admitted program.

How E&S access works

Surplus lines carriers are not licensed to write business in every state the way admitted carriers are. They write as eligible nonadmitted insurers when admitted coverage is unavailable. Access runs through surplus lines brokers—producers with surplus lines authority—who place coverage with Lloyd’s syndicates, Bermuda and other offshore carriers, and U.S. domestic surplus lines companies.

Eligible surplus lines insurer

A nonadmitted carrier approved on the insured’s home state eligibility list (or meeting that state’s financial eligibility standards, often including minimum capital and surplus thresholds on the order of \$15 million for many states). Lloyd’s syndicates are eligible in all states. Other frequent markets include U.S. surplus lines insurers and offshore carriers that qualify and post U.S. trust funds for policyholder obligations.

The Nonadmitted and Reinsurance Reform Act (NRRA) centralized compliance on the insured’s home state: one eligibility list, one premium tax payment, one set of filing rules for multi-state accounts instead of a patchwork by location. Large commercial accounts that meet NRRA’s exempt policyholder thresholds skip diligent effort documentation; everyone else needs a defensible admitted-market search on the record.

Why E&S volume is up in 2026

Admitted carriers continue to tighten wildfire, hail, wind, and coastal property appetite, manage aggregate limits by geography, and push rate and deductible increases documented in the current hard market cycle. When admitted capacity hits its accumulation ceiling, the next layer often moves to E&S—sometimes for the full property limit, sometimes only for the excess layer above an admitted primary.

Reinsurance and insurance-linked securities capital still matter for whether E&S carriers can hold the line on capacity. Catastrophe bond issuance set H1 2026 records—Artemis tracked roughly \$18 billion across 83 transactions in the first half of 2026—which reflects sponsor demand to place peak peril risk with investors even as admitted markets shrink. That capital supports reinsurers and specialty carriers that feed the E&S market; it does not replace guaranty fund protection at the policyholder level. For how carriers manage those peaks internally, see catastrophe portfolio management and accumulation control.

Typical placement triggers

- Risk characteristics outside filed eligibility—construction class, occupancy, protection, or loss history
- Geographic accumulation—admitted carrier at CAT zone total insured value limits
- Limit size above admitted capacity, requiring excess or full E&S placement
- Coverage forms with no admitted market equivalent (some environmental, cyber, transactional, or project-specific programs)
- Binding speed or manuscript terms for M&A, loan covenants, or contract deadlines

Pricing, forms, and what you give up

E&S premium for similar exposures often runs materially above admitted pricing—commonly cited ranges of 20–50% for comparable limits, wider when loss history or peril concentration is severe. The gap narrows when admitted rates rise sharply in hard markets, so E&S is not always the most expensive option on a relative basis even when it is the only option on an absolute basis.

Policy forms are not ISO boilerplate under state review. Expect different exclusion packages, sublimits, reporting conditions, choice-of-law clauses, and claims protocols. Before you bind, walk the dec page and insuring agreement the way you would on any large account—see how to read declarations, insuring agreements, conditions, and exclusions. On property programs, align E&S layers with your Coverage A–D structure and any flood or wind carve-outs so you are not insuring the wrong asset values or periods.

The decisive policyholder difference remains solvency backstop: admitted insolvency triggers state guaranty association mechanisms (with caps and line limitations); E&S insolvency leaves you in the carrier’s estate. Reinsurance behind the carrier improves odds of payment but is not a substitute for guaranty fund coverage in your contract.

Producer compliance: diligent effort and tax

Surplus lines producers owe the compliance work the carrier does not: diligent effort files, surplus lines affidavits, stamping office fees in states that use them, and home-state premium tax (typically passed through on the invoice). Sloppy documentation is a licensing problem for the broker and can become a coverage or tax problem for the insured in audit.

If you are not NRRA-exempt, ask for declination evidence you can file—not a verbal “admitted is closed.” If you are exempt, confirm the exemption in writing and still review carrier strength and form language. Either way, claims will run through the E&S carrier’s process; align internal claims management with their reporting clocks and proof-of-loss requirements.

Frequently Asked Questions

When is surplus lines (E&S) placement required?

Surplus lines placement is required when admitted carriers will not write the risk under their filed guidelines after a good-faith search, or when the limits or coverage form you need simply are not available in the admitted market. Common triggers in 2026 include catastrophe accumulation limits in wildfire, coastal wind, and flood zones; loss history above admitted eligibility; unusual construction or occupancy; specialty lines such as complex cyber or pollution; and layered programs where admitted capacity stops below the total limit you need. Your broker documents that search through diligent effort (unless you qualify as an exempt commercial policyholder under NRRA).

What is the Nonadmitted and Reinsurance Reform Act (NRRA)?

The Nonadmitted and Reinsurance Reform Act of 2010 (NRRA), part of Dodd-Frank, assigns sole surplus lines regulatory jurisdiction to the insured’s home state—the state of the insured’s principal place of business for most commercial accounts. Premium tax is paid to that home state under nationwide allocation agreements, and the home state’s eligible surplus lines insurer list governs which nonadmitted carriers may write the risk. NRRA also defines exempt commercial policyholders (generally net worth over \$20 million, revenue over \$3 million, or in-force commercial premium over \$100,000) who are not subject to diligent effort documentation in any

state.

How should policyholders evaluate E&S carrier financial strength?

E&S policyholders have no state guaranty fund if the carrier fails, so credit quality is part of the coverage decision. Start with A.M. Best's Financial Strength Rating—A- (Excellent) or better is the usual institutional bar for material limits; B++ (Good) may work for smaller placements; lower ratings deserve explicit sign-off. Review NAIC annual statement data when the carrier files voluntarily, Lloyd's syndicate security including the Central Fund for syndicate failure, and U.S. trust deposits that eligible nonadmitted insurers maintain for U.S. policyholders (NRRA sets a \$5.4 million minimum trust in many structures). Match carrier strength to limit size and claim severity, and document who accepted the credit risk.

What is the main coverage difference between admitted and surplus lines policies?

Admitted policies use state-filed rates and forms, are supervised by the domiciliary and issuing state departments of insurance, and participate in state guaranty funds if the insurer becomes insolvent (subject to fund caps and covered-line rules). Surplus lines policies use non-filed rates and manuscript or non-standard forms, are procured through licensed surplus lines producers, and leave you as an unsecured creditor if the carrier liquidates. That difference shows up in pricing, exclusions, claims-handling clauses, and how you read the dec page and insuring agreement before bind—not after a loss.

What is diligent effort in surplus lines placement?

Diligent effort is the documented process proving the risk was offered to admitted insurers and declined or unavailable at the needed limits or terms. The surplus lines producer—not the policyholder—typically records declinations or acceptable reasons (such as no admitted market for the coverage form), files affidavits or stamping-office reports where required, and remits surplus lines premium tax. NRRA exempts qualifying large commercial policyholders from diligent effort rules; every other account must comply with home-state standards. Incomplete documentation can void surplus lines eligibility and create tax and licensing exposure for the broker and, in some states, coverage disputes.

Catastrophe Portfolio Management: Accumulation Control, PML Management, and Reinsurance Design

Source: <https://riskcoveragehub.com/catastrophe-portfolio-management-accumulation-pml-reinsurance/>

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Direct answer: Catastrophe portfolio management turns cat model output—PML, average annual loss, and exceedance curves by zone and peril—into hard limits on where and how much business a carrier writes, how much tail loss it keeps after reinsurance, and how occurrence and aggregate treaties (plus ILS) are layered. Zone accumulation caps prevent one storm or quake from wiping out surplus; net PML targets tie retained loss to capital; reinsurance and cat bonds transfer the rest at a price set by modeled layer loss and market capacity.

Catastrophe portfolio management sits between model output and underwriting authority. Models deliver gross PML, AAL, and EP curves by peril and zone; actuaries and portfolio managers turn them into TIV limits, net PML budgets, and a reinsurance tower that fits rating and board tolerance. The January 2023 renewal—peak U.S. hurricane cat XL pricing up sharply after 2017–2022 losses—still constrains growth in Florida, the Gulf

Coast, and California wildland interface; later renewals stay capacity-sensitive, as in the hub's global reinsurance market and January renewal note.

Accumulation management framework

Accumulation control starts with zones: geographies where one catastrophe can correlate losses. Hurricane zones may follow coastal counties or state clusters within a credible track envelope. Earthquake zones follow fault segments and shaking footprints used in the model. Wildfire zones follow fuel, terrain, and fire-weather regions that define a plausible single-event footprint. Peril definitions and model assumptions are summarized in the hub's hurricane, earthquake, and wildfire peril analysis.

Probable maximum loss (PML) vs. maximum possible loss (MPL)

PML is loss from a credible severe scenario—the large but modeled event used for reinsurance and regulatory reporting. MPL is a stress envelope: maximum magnitude, worst track, highest vulnerability—useful for sanity checks, not for pricing a standard cat XL layer. Operationally, PML is the loss at a stated return period on the EP curve (e.g., 100-year or 250-year). For how models produce those curves, see *Catastrophe Modeling: The Complete Guide to Cat Risk Assessment* (2026).

Zone limits are expressed in TIV—the maximum rolled-up insured value the carrier will hold in that zone. Planners work backward from net PML: if surplus is \$500M and the board caps 100-year net hurricane retention at 10% (\$50M), modeled gross PML as a percent of zone TIV, minus expected recovery from cat XL, defines how much TIV can remain before underwriters must stop binding. Filled zones push business to excess and surplus markets or declinations—the supply constraint property owners see in coastal and wildfire counties.

Catastrophe reinsurance program design

The reinsurance program maps gross cat exposure to net retained loss. A typical property carrier stack includes per-occurrence cat XL for windstorm and allied perils, a separate earthquake XL, optional flood cover where written, and sometimes aggregate stop-loss above the occurrence tower. Treaty mechanics—quota share versus excess of loss, reinstatements, and aggregate structures—are laid out in *Quota Share Reinsurance vs Excess of Loss (Treaty Structures)* and in depth in *Reinsurance Treaty: The Complete Guide to Treaty Structures, Pricing, and Negotiation*.

The cat XL attachment point is the pivotal retention decision. Attachment near the 10-year loss level means the carrier funds smaller events; only tail events cede. Lower attachment buys more recovery at higher premium; higher attachment preserves premium but loads surplus on mid-tail years. Reinsurers price the ceded layer from modeled layer AAL and tail leverage, plus model uncertainty and renewal supply.

PML management and capital

Gross PML is pre-reinsurance; net PML is what remains after treaties respond at the selected return period. Rating and internal capital models ask whether net PML at 100-year or 250-year stays within policy. When models update—new hurricane catalog, wildfire spread logic, or inflation in building values—gross PML shifts and the same TIV stack may breach limits without any new policies. That is why carriers rerun roll-ups at renewal and after major model vendor releases.

Insureds feel this indirectly: carriers that breach net targets shrink capacity or tighten terms even when individual locations look acceptable in isolation.

Insurance-linked securities and the cat bond market

ILS—cat bonds, collateralized reinsurance, sidecars—brings capital markets capacity with multi-year tenor and fully collateralized limits. Artemis reported record first-half 2026 cat bond issuance of approximately \$18 billion across 83 Rule 144A and private transactions (about \$17.98 billion), surpassing the prior H1 record near \$17.6 billion in 2025; outstanding market size tracked by Artemis reached roughly \$65.6 billion at end of Q2 2026. Sponsors use bonds to stabilize tail capacity across renewals when traditional cat XL tightens.

Trigger design overlaps with parametric and index products; see Parametric Insurance and Index-Based Risk Transfer. For how ceded reinsurance shapes primary market capacity, see Reinsurance: The Complete Professional Guide (2026).

Frequently Asked Questions

What is catastrophe accumulation management and why does it matter?

Catastrophe accumulation management is the practice of monitoring and limiting total insured value (TIV) and modeled catastrophe loss potential concentrated in geographic zones where one event can drive correlated losses across many policies. Attritional losses aggregate predictably; catastrophe losses do not—a single hurricane, earthquake, or wildfire can hit hundreds or thousands of locations at once. Carriers set zone TIV caps, compare gross and net probable maximum loss (PML) to surplus, and use reinsurance to cap retained tail risk. When zones fill, underwriters decline or non-admit new business, which is why policyholders in peak hazard counties see tighter capacity and higher prices.

How is catastrophe excess of loss reinsurance structured?

Catastrophe excess of loss (cat XL) pays per occurrence above a retention (attachment point) up to a limit, expressed as “limit xs retention”—for example, \$100M xs \$50M means the reinsurer pays eligible losses from \$50M to \$150M on a single event and the carrier keeps the first \$50M. Attachment is usually set so retained loss in a severe but plausible scenario stays within a surplus band (often roughly 10–25% of surplus, depending on rating and board appetite). Treaties commonly include two or three reinstatements: after the limit is exhausted, the cedent pays reinstatement premium to restore coverage for a later event in the same contract year. Pricing follows the modeled exceedance curve for the ceded layer, not the headline limit alone.

What is a catastrophe bond and how does it work?

A catastrophe bond (cat bond) is insurance-linked securities (ILS) capacity: a sponsor sets up a special-purpose vehicle that sells notes to investors; proceeds sit in collateral. If a defined trigger fires during the term—parametric (e.g., wind speed at a location), indemnity (sponsor losses above a threshold), or industry index (e.g., PCS)—principal is reduced or paid to the sponsor. Investors earn a risk premium (often floating rate plus a spread) for bearing that remote risk. Artemis tracked record first-half 2026 issuance of approximately \$18 billion across 83 Rule 144A and private cat bond transactions (about \$17.98 billion), with outstanding market size near \$65.6 billion at end of Q2 2026—multi-year, collateralized tail capacity alongside traditional reinsurance.

How do carriers set net PML targets relative to capital?

Net PML is modeled catastrophe loss after reinsurance at a chosen return period (commonly 100-year or 250-year), compared to statutory surplus or economic capital. Boards and rating agencies expect net retained tail loss to stay within a stated fraction of surplus; that fraction drives how much gross PML the carrier may accumulate and where cat XL attachment and limits must sit. Underwriters work backward from the net target: zone TIV limits, line sizes, and deductibles are tuned so rolling up policies does not breach the net PML budget. Reinsurance purchases are sized to shave the gross EP curve down to the approved net point—if reinsurance markets harden, either gross exposure must shrink or net PML tolerance must be renegotiated with stakeholders.

When does aggregate reinsurance matter alongside per-occurrence cat XL?

Per-occurrence cat XL responds to one large event. Aggregate stop-loss or aggregate excess-of-loss covers the sum of retained losses across multiple events or across all perils in a contract year—useful when several medium hurricanes, quakes, or wildfires in one season erode earnings even if no single loss pierces the occurrence tower. Carriers with heavy secondary peril stacks or regional diversification often buy an aggregate layer above an occurrence program so that frequency-heavy years do not consume all surplus. The aggregate attachment is set against budgeted retained cat load and correlates with how much reinstatement premium the occurrence tower would cost after a first big hit.