BASIC TECHNICAL REINSURANCE ACCOUNTING

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Prepared for Africa Re by the

LONDON SCHOOL OF INSURANCE

The power of knowledge fitting the pieces together

Basic Technical Reinsurance Accounting

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INDEX

1. INTRODUCTION

1.1 Review of courses 1 & 2 Assumption of familiarity with meaning of proportional and non-proportional cessions, facultative and treaty.

There can be few religions or societies that do not support the notion that we should help one another, and this fundamental principle has been reflected from the earliest family groups right up to the modern promotion of the welfare state. Without protection from nature's basic risks it is difficult for societies to evolve. Farmers are reluctant to take on heavy debt where they are totally reliant on the weather, and investors are reluctant to send ships around the world, to build large organisations or encourage economic development where too many risks are involved.

The notion of helping one another has ranged from wholly non-profit organisations and charities, to co-operatives, mutual societies, to for-profit insurance companies and more recently takaful.

Whichever form of organisation takes on large and complex risks, it needs to manage those risks responsibly if it is to fulfil its objectives in a business-like manner and properly protect its customers.

There is no substitute for technical appreciation and knowledge when it comes to managing risks, and one of the strategic goals of Africa Re is to promote and support education and training in the insurance and reinsurance space.

This course "basic technical reinsurance accounting" is the fourth in a series of courses designed to this end.

It follows the first course "Introduction to Reinsurance" which was designed:

- To provide you with an introduction to the world of reinsurance.
- To enable you to feel comfortable with, and understand, the core concepts and the principles.

It follows the second course which was designed to provide you with the key elements of the practice of reinsurance:

- An understanding of reinsurance documentation
- A knowledge of additional types of reinsurance cover not covered in course 1
- An understanding of reinsurance accounting
- An understanding of statistics, incurred but not reported claims and risk profiles
- An understanding of pricing methods
- An understanding of the reinsurance cycle.

and a third course which set out the basic elements to enable you to design a reinsurance programme.

1.2 Learning Objectives

The objective of this course is to convert the results of that experience and knowledge into something that can be measured and given to stakeholders - cash.

The main sections of this manual are as follows:

- What is accounting ?

  Learning objective: To understand the purpose of accounting, and be familiar with its every day terminology. Fundamental principles of accounting, profit & loss account, balance sheet, assets, liabilities, surplus. Regulation.

- What is reinsurance accounting ?

  Learning objective: To understand the purpose of reinsurance accounting, and be familiar with its every day terminology. The provision of reinsurance accounts, premiums, losses, commissions, reserves, portfolios.

- Important reinsurance documentation.

Learning objective: To be familiar with the relevant accounting terms/clauses in slips and treaties.

- Basic non-proportional accounting.

Learning objective: To be familiar with basic non-proportional accounting, preparation of initial minimum and deposit premium accounts, loss accounts, adjustment accounts.

- Basic proportional accounting

Learning objective: To be familiar with basic proportional accounting on a clean cut and underwriting year basis. Preparation of four quarterly accounts on both a clean cut basis with incoming and outgoing portfolios and on an underwriting year basis, maintaining reserve accounts, crediting interest, deducting tax.

- Statistics.

Learning objective: To be familiar with the preparation of statistics on a clean cut and underwriting year basis

We hope this manual will provide you with the additional knowledge you will need to reach this goal, and will also encourage your further research of this important aspect of reinsurance.

Other manuals will soon be available to assist you with these further researches.

2. WHAT IS ACCOUNTING ?

Learning objective: To understand the purpose of accounting, and be familiar with its every day terminology. Fundamental principles of accounting, profit & loss account, balance sheet, assets, liabilities, surplus. Regulation.

2.1 The purpose of accounting

There is a well-known saying that "money makes the world go round". In the financial world everything is measured by the cash generated … or lost. Accounting essentially converts events, actions and decisions into cash, in a relatively standardised format, so that performance in cash terms can be monitored, controlled and compared.

2.2 Terminology

2.2.1 Assets

An asset, in the context of company accounting, is an element that has a positive financial value and which is owned or controlled by the company.

2.2.2 Liabilities

A liability, in the context of company accounting, is an element that has a negative financial value and which is payable to equity holders, other lenders and those who supply the company with goods or services.

2.2.3 Surplus

The surplus is the balance of assets remaining after the deduction of liabilities. Negative surplus can occur when the liabilities of a company exceed its assets.

2.3 Profit & Loss accounts and balance sheets

The profit and loss account of a company records income (credit) and payments (debit) during a given period – usually a period of 12 months, known as the company's financial year. This is the accumulation of all the daily accounting entries that have been made recording income and payments.

Most companies employ what is known as the "double entry system" of accounting. Thus if the company purchases a computer, this purchase is recorded twice. The purchase increases the assets of the company (increase in assets), but at the same time it either increases the liabilities (an amount owed to a supplier) or it decreases the cash account, if the computer was purchased for cash. This double entry process, which requires the entries to balance, or produce a zero result, is an important control mechanism. Clearly failure to produce a zero result indicates a problem.

The result of the profit and loss account will affect retained earnings. If the company has made a profit, the company will likely pay out part of the profit as dividends and retain part as an addition to shareholders equity. If the company makes a loss, then that loss must be deducted from shareholders equity.

The balance sheet of a company records the overall financial condition of the company at a given point in time, usually at the end of the company's financial year. It summarises two main elements – the assets of the company, and the liabilities of the company. The assets and the liabilities (the liabilities include the shareholders' equity) must balance i.e. the result of adding all the assets and deducting all the liabilities must equal zero. The balancing factor is the shareholders equity. If a company makes a loss, shareholders equity is reduced, if a company makes a profit, then shareholders equity is increased less any dividends. If after this balancing factor liabilities still exceed assets, then the company, failing an acceptable recovery plan, goes into liquidation or bankruptcy.

2.4 Regulation

The fundamental principles of accounting are defined by a country's legislation. In the UK, for example, Generally Accepted Accounting Practice (GAAP) is the source of regulation that dictates how companies must prepare their accounts in the UK. This includes not only the law, but the Financial Reporting Standards (FRS) as well. It is essential that every company be fully aware and up-to-date on its local regulation and any other regulation it may be subject to through operating outside of the country of its establishment.

3. WHAT IS REINSURANCE ACCOUNTING ?

Learning objective: To understand the purpose of reinsurance accounting, and be familiar with its every day terminology. The provision of reinsurance accounts, premiums, losses, commissions, reserves, portfolios.

3.1 The purpose of reinsurance accounting

As with accounting, (re)insurance accounting essentially converts the experience of a (re)insurance company, the premiums written/received, the claims occurred/advised/paid, the actions and decisions of its board of directors and other stakeholders into money, in a relatively standardised format, so that performance in monetary terms can be monitored, controlled and compared.

This consists of daily bookkeeping processes which culminate in the profit and loss account and the balance sheet produced at the end of every financial period. It will include all the financial and statistical reports to management, the accounts and reports to reinsurers, the returns to the regulator, and any other information required to whomever it may concern.

It includes every financial movement whether it be the "business" – premiums, claims, commissions; whether it be purchases of computers, furniture, cars; whether it be travel expenses or salaries of employees; or any other credit or debit which needs to be recorded by the company.

While in this course we concentrate on the "business" and specifically reinsurance accounting, the other accounting items should not be omitted from the overall accounting necessary to provide a global picture of the financial performance of the (re)insurance company. Both prospective clients and investors will review the overall financial health of the company when deciding whether to work with, or invest in, the company.

3.2 Terminology specific to reinsurance accounting

The main reinsurance accounting items are summarised in the figure below:

Technical items - OUTGO	**Technical items - INCOME**
Premiums	Commission
Portfolio premium assumption	Overriding commission
Portfolio loss assumption	Profit commission
Loss recoveries	Miscellaneous charges
Cash loss refund	Portfolio premium withdrawal
	Cash losses
	Losses paid
	Portfolio loss withdrawal
Financial items	
Interest on cash deposit	Tax on interest
Premium reserves in (cash deposits)	Premium reserves out (cash deposits)
Loss reserves in (cash deposits)	Loss reserves out (cash deposits)

It is important to highlight that for an insurance company the premium paid to a reinsurer is a debit, an item of OUTGO, while from the reinsurer's perspective it is a credit, an item of INCOME. Here we look at this aspect from the insurer's viewpoint.

3.2.1 Premiums

There are a number of different meanings ascribed to premiums.

Written premium is a common term and it refers to the premiums written usually during the course of the year to which the treaty applies. In proportional cessions, written premiums are usually the premiums used to calculate the commission due to the ceding company, and these premiums also form the basis for premium reserve calculations and outgoing premium portfolios.

Earned premiums are the result of:

Written premium + incoming premium portfolio – outgoing premium portfolio.

Earned premiums can also be calculated using premium reserves, and would then be the result of:

Written premium + incoming premium reserve – outgoing premium reserve.

There are also several ways to calculate the reserves – refer to page 28.

As regards non-proportional treaties, premiums are often the basis upon which to apply the rate applicable under a particular excess of loss cover. Then premiums are often referred to as "Gross Net Retained Premium Income (GNRPI)" or "Gross Net Written Premium Income (GNWPI)". These basis are not exclusive, and the definitions are not completely standardised, so it is very important to check the definition that appears in the treaty wording to be sure there will be no misunderstandings.

GNRPI/GNWPI is defined as: Written premium income less premium returns, cancellations and rebates, and less premiums paid for reinsurance cessions inuring to the benefit of the present cover, if any.

3.2.2 Losses or Claims

These terms are generally interchangeable. Often proportional treaty accounts refer to losses paid, and outstanding losses, and incurred losses and loss reserves and loss portfolios, while non-proportional treaty accounts refer to claims, outstanding claims and incurred claims. However it is emphasised that these terms are synonymous.

Incurred losses under proportional treaties are calculated as follows:

Losses paid during the current year, less outstanding losses brought forward from the previous year, plus the outstanding losses at the end of the current year.

Where the treaty has incoming and outgoing portfolios, the incurred losses are calculated as follows:

Losses paid during the current year, less incoming loss portfolio, plus the outgoing loss portfolio at the end of the current year.

3.2.3 Commissions

There are a number of different types of commission which will be set out here, but reviewed in more detail below. Commissions are applicable in proportional accounts, they do not exist in non-proportional accounting (and should not be mixed up with intermediary commission which the reinsurer pays to the intermediary who introduced/placed the business with it).

The most common is the fixed commission. This is usually expressed as a percentage of written premium e.g. 40% of written premium.

Often proportional treaties will also have a profit commission and this is a percentage of the profit of the treaty year in question e.g. 15% of the profit. The profit for the year will be calculated according to a formula set out in the treaty wording and this often includes a number of elements such as reinsurers' expenses and whether losses from previous years are carried forward or not. It is very important to refer to the treaty wording to understand how the profit will be calculated. Profit commissions are dealt with in detail below at page 24.

Where it is difficult to agree fixed commissions, the parties to a proportional reinsurance contract may agree to a sliding scale commission. An example of a sliding scale commission is as follows:

SLIDING SCALE COMMISSION TABLE

Commission	Loss Ratio	Commission	Loss Ratio
16%	84% or higher	21%	74%
16.50%	83%	21.50%	71%
17%	82%	22%	72%
17.50%	81%	22.50%	73%
18%	80%	23%	70%
18.50%	79%	23.50%	69%
19%	78%	24%	68%
19.50%	77%	24.50%	67%
20%	76%	25%	66%
20.50%	75%	25.50%	65% or lower

It can be seen from the above example that the commission increases by 0.5% for every improvement in the loss ratio of 1%. This is an example, and sliding scale commissions can vary depending on the result of renewal negotiations. Sliding scale commissions are dealt with in more detail at page 24

Another type of commission is an overriding commission, this is a flat commission in addition to the fixed commission under a proportional treaty and may be applied in special circumstances as agreed during the renewal negotiations.

3.2.4 Reserves

Reserves were historically set up to reduce the credit risk to the reinsured. By holding premium and loss reserves, the reinsured had a balance of cash in hand should the reinsurer fail to honour its obligations under the treaty. Reserves are a cash item retained by the reinsured and generally the reinsured pays interest on the reserves it is holding subject to any tax on interest.

The percentage of premium reserves and loss reserves withheld appears in the treaty wording, and reserves are dealt with in more detail below at page 28.

3.2.5 Portfolios

Portfolios only apply to proportional treaties on a clean-cut or accounting year basis. Under the clean-cut or accounting year system any premium or loss movement taking place during that accounting year is credited or debited based on the terms and conditions in the reinsurance contract for the relevant accounting year irrespective of when the risk incepted, or when the loss may have occurred.

In order for a reinsurer during that year to be properly remunerated for the liability it accepts it is credited with an incoming premium portfolio to cover unexpired risks from the previous year, and an incoming loss portfolio to cover outstanding losses. Similarly at the end of the year, the reinsurer will be debited with outgoing premium and loss portfolios. Portfolios are dealt with in more details below at page 13.

4. IMPORTANT REINSURANCE DOCUMENTATION

Learning objective: To be familiar with the relevant accounting terms/clauses in slips and treaties.

4.1 Main accounting elements in slips

An example slip is included in this manual at appendix 2.

4.1.1 Identification of reinsurance form and type

Form and type identification is important as the process will be quite different as between accounting for proportional business and accounting for non-proportional business, thus knowing which "form" the reinsurance takes is important.

Equally which "type" of reinsurance is also important. Again there will be different processes in allocating risks as between, for example, quota share treaties and surplus treaties, and equally there will be a different process of claims allocation as between a per risk excess of loss treaty and a catastrophe excess of loss treaty.

4.1.2 Period

Period is important as an accountant will need to appreciate into which financial year the cover falls, and equally if any part of the claim not recoverable under the cover currently being considered, is covered under another reinsurance arrangement.

4.1.3 Currency

If the cover is in local currency processing of accounts will be much easier, but if the cover or claims can be in other currencies, then it is important to locate and understand the currency clause and how conversions should be treated.

4.1.4 Retention/deductible

Retentions under proportional covers and deductibles under non-proportional covers need to be identified for risk allocation and claim distribution.

4.1.5 Method of premium calculation

For proportional covers it is more a question of premium allocation. Under non-proportional covers the minimum and deposit premium (sometimes just a deposit premium or a fixed premium) needs to be identified, and the rate, and the base premium income to which that rate will be applied.

4.2 Main accounting elements in wordings

4.2.1 Proportional

An example proportional wording is included in this manual at appendix 3.

4.2.1.1 Parties

The accountant needs to identify the parties, where the reinsured may be group of companies, it may be necessary to allocate account entries to a specific income statement or reports to a specific management area. Equally reinsurers need to be identified including the address to which accounts should be sent.

4.2.1.2 Period

Period is important as an accountant will need to appreciate into which financial year the cover falls, and equally if any part of the claim not recoverable under the cover currently being considered, is covered under another reinsurance arrangement.

4.2.1.3 Commission clauses

Commissions need to be identified. Is the cover subject to a flat commission, a sliding scale commission, an overriding commission? How is the commission calculated?

4.2.1.4 Profit commission clause, if any

If there is a profit commission, the process to calculate the profit is important. It will also be necessary to identify reinsurers' expenses and whether losses of previous years, if any, need to be included.

4.2.1.5 Identification of reserves and their calculation

If the cover is subject to reserves, the method of calculation needs to be identified.

4.2.1.6 Clauses relating to interest on reserves, charges and taxes

If reinsurers need to deposit reserves with the reinsured these cash deposits will usually attract interest and there will be a clause detailing how that interest will be calculated and the necessity to withhold tax on such interest, if any.

Other charges may also apply. If there are other charges they must be identified in the treaty wording with a clear description of how they will be calculated.

4.2.1.7 Identification of account type – clean-cut or underwriting year, if clean-cut calculation of portfolios

Clean-cut treaties are subject to a different process from rendering accounts on an underwriting year basis. Generally, a clean-cut treaty can be identified by the existence of a clause in the wording relating to "portfolios". This will specify if there will be incoming portfolios (if a treaty is being renewed then generally there will be incoming portfolios, if the treaty is new there may not be any incoming portfolios), how they will be calculated, and also the basis of calculation of the outgoing portfolios.

4.2.1.8 Clauses relating to timing of accounts, timing of settlement, consequences of late settlement, and process to claim cash losses

Clearly the accountant needs to know when accounts must be rendered to reinsurers, and when balances are payable, and these parameters are set out in the treaty wording. More and more treaty wordings today also require interest to be paid on balances outstanding for more than a defined period. It is also important to know at what level the reinsured can demand payment for a loss without having to wait until the next quarterly or half-yearly account needs to be rendered. Generally, when a claim payment reaches a certain level the reinsured needs liquidity, and that liquidity within a short period of time.

4.2.1.9 Clauses relating to off-set and currency conversion

The accountant also needs to be aware if off-set is permitted between the parties, and if other treaties or agreements between the parties are included in the off-set process. Also how premiums and claims in other currencies will be converted into the treaty currency.

4.2.1.10 Provision of bordereaux, if any

Some treaties still require bordereaux, and suitable processes must be in place to complete such information accurately. Bordereaux are reports prepared for reinsurers providing details of the risks that have been ceded to the treaty. Some reinsurers may only require certain risks to be reported, for example, risks with a sum insured exceeding a certain figure, or risks falling within certain hazardous categories. Some reinsurers may require a detail of all risks, including rates and other details, so that they can better understand the risks that the cedant is accepting and thus the quality of the business being ceded to the treaty.

4.2.1.11 Errors and omissions

It is important that errors and omissions do not invalidate the contract where they are genuine and are rectified upon discovery.

4.2.1.12 Applicable law

Applicable law is important, as the legal framework to which a policy issued is subject may be different from the legal framework within which the reinsurer operates. The “follow the fortunes” clause may solve this issue, but it is always better if the local law of the ceding company is applicable to avoid any issues at the time of the claim.

4.2.1.13 Rights of inspection, audit.

Generally, the reinsurer will have the right to inspect the cedant’s documents as long as the contract is active or a dispute remains open. Rights of inspection clauses sometimes also contain a confidentiality condition where this has not been dealt with elsewhere in the treaty.

4.2.2 Non-proportional

An example proportional wording is included in this manual at appendix 4.

4.2.2.1 Parties

The accountant needs to identify the parties, where the reinsured may be group of companies, it may be necessary to allocate account entries to a specific income statement or reports to a specific management area. Equally reinsurers need to be identified including the address to which accounts should be sent.

4.2.2.2 Period

Period is important as an accountant will need to appreciate into which financial year the cover falls, and equally if any part of the claim not recoverable under the cover currently being considered, is covered under another reinsurance arrangement.

4.2.2.3 Method of premium calculation

The treaty wording will set out the details necessary to calculate the premium payable under the cover. Generally the reinsurer requires a percentage rate to be applied to an agreed definition of premium income.

In the wording set out in appendix 4, the premium for the first layer is set out as follows:

Adjustable within 60 days after expiry at 9.24% of the Reinsured's Original Gross Net Retained Premium Income accounted for in respect of business reinsured hereby during the period hereon, subject to a Minimum and Deposit Premium of NGN 2,577,960 payable in two equal instalments, half-yearly in advance at 1st January 2013 and 1st July 2013.

This clause sets out clearly the rate (9.24%), it describes the premium base to which the rate will be applied – the Reinsured's Original Gross Net retained Premium Income accounted for in respect of business reinsured hereby during the period hereon - and it states the minimum and deposit premium to be paid, and when it will be paid.

4.2.2.4 Minimum and deposit premium

As can be seen in 3 above, a minimum and deposit premium is payable, in the above example half-yearly. Often minimum and deposit premiums are calculated at 80% of the expected premium. As the reinsured must generally pay the reinsurer before it has received payments from its policyholders the possibility to defer part of the minimum and deposit premium can be quite important from a liquidity point of view. Often the whole minimum and deposit premium is payable on inception of the treaty.

4.2.2.5 Reinstatement premium, if any

Cover under a non-proportional treaty is limited to the maximum amount for which the reinsurer is liable (the limit). Thus, after a full loss, cover is exhausted. If a reinsured wishes to have more than one full event covered, it needs to ensure it has a reinstatement provision in the contract. This usually requires a reinstatement premium. Details as to how the reinstatement premium will be calculated and for what amounts will be described in the treaty wording.

4.2.2.6 Clauses relating to timing of premium payment, timing of settlement, consequences of late settlement

As noted above the timing of the minimum and deposit premium payments can have a material effect on the reinsured's liquidity. As excess of loss treaties are based on claims, accounts in respect of claims are issued when a claim payment needs to be made. As once again the reinsured is, at this time, in need of liquidity to pay its claimant, it is important that the reinsurer pays amounts due quickly, and the consequences of late settlement should reflect the costs the reinsured could incur should it be necessary to borrow money on short term while awaiting monies from reinsurers.

4.2.2.7 Clauses relating to off-set and currency conversion

The accountant also needs to be aware if off-set is permitted between the parties, and if other treaties or agreements between the parties are included in the off-set process. Also how premiums and claims in other currencies will be converted into the treaty currency.

4.2.2.8 Errors and omissions

It is important that errors and omissions do not invalidate the contract where they are genuine and are rectified upon discovery.

4.2.2.9 Applicable law

Applicable law is important, as the legal framework to which a policy issued is subject may be different from the legal framework within which the reinsurer operates. Wherever possible the applicable law for the treaty relationship should be the same as the applicable law in the policy with the reinsured's insured.

4.2.2.10 Rights of inspection, audit

Generally, the reinsurer will have the right to inspect the cedant's documents as long as the contract is active or a dispute remains open. Rights of inspection clauses sometimes also contain a confidentiality condition where this has not been dealt with elsewhere in the treaty.

5. BASIC NON-PROPORTIONAL ACCOUNTING

Learning objective: To be familiar with basic non-proportional accounting, preparation of initial minimum and deposit premium accounts, loss accounts, adjustment accounts.

5.1 Accounting for minimum and deposit premium with example

Often it is the party looking to receive money that will render an account to the other contractual party. Thus it is often the reinsurer, or the reinsurance intermediary, who will render the account to the reinsured for payment for the minimum and deposit premium.

In checking the correctness of the account reference needs to be made to the treaty wording, or if lacking, the slip. Usually the minimum and deposit premium amount is given. As a rule of thumb, it should generally be 80% of the rate multiplied by the estimated premium for the year, but this is only a rule of thumb and other fractions are possible.

An example account is given below:

From: Ensure Reinsurance Co.
Our Ref: C & A/1

To: East West Fire Insurance Co.
Your Ref: FIC/XL/00

10th December 2014

Dear Sir / Madam,

Your 3rd layer property excess of loss treaty - Minimum and Deposit Premium

The following premium is due to us under the above treaty and we would be pleased to receive your remittance as they fall due.

Minimum & Deposit premium 2015 $500 000

Payable in four equal instalments of $125 000
On 1st January, 2015
1st April, 2015
1st July, 2015
1st October, 2015

Yours faithfully,

Signed

(This function may also be carried out by the reinsurance intermediary.)

In the above example the minimum and deposit premium is $500,000 payable quarterly.

5.2 Accounting for losses, provision of claim information with example

If the excess of loss treaty should suffer a loss, generally it is the reinsured who will render an account to the reinsurer for payment.

An example of such an account is given below:

EXAMPLE OF A LOSS ADVICE RECEIVED REQUESTING SETTLEMENT FROM REINSURERS.

REINSURED:	*Peoples Insurance Co, Westland*
ASSURED:	*Various*
TREATY:	*Catastrophe excess of loss*
LIMIT:	*$ 1 000 000*
EXCESS:	*$ 500 000*

We regret to advise that we have incurred substantial losses following the passage of Typhoon David, which occurred between 15th February and the 22nd February 2016.

Based on the following loss schedule we would request settlement from reinsurers as set out below:

Date of loss	*Amount*
15.02.2016	*$ 25 000*
16.02.2016	*$ 250 000*
17.02.2016	*$ 150 000*
18.02.2016	*$ 650 000*
19.02.2016	*$ 225 000*
20.02.2016	*$ 50 000*
21.02.2016	*$ 25 000*
22.02.2016	*$ 10 000*
TOTAL PAYMENTS	*$ 1 385 000 (gross of excess)*

We therefore look forward to receiving your remittance shortly.

In this case there has been a typhoon lasting several days, and the reinsured is requesting payment from its reinsurer based on the payments it has made. The total amount is marked as «gross of excess", thus it would be necessary to reduce the amount by the deductible of $500,000, making a payment due of $885,000.

One would also need to check if an hours clause exists in the contract which might further reduce the payment, and also if a reinstatement premium is payable – see c below.

5.3 Accounting for reinstatement premiums, if any with example

Most excess of loss treaties either on a per risk basis or a per event basis have limited reinstatements. That is to say if, for example, the cover is 100,000 excess of 50,000, once there have been losses exceeding the deductible (50,000) amounting to 100,000 the cover is exhausted and requires reinstatement.

The reinstatement clause, which is relevant only to excess of loss contracts, applies when the cover in the treaty is exhausted or partly used up. It stipulates the additional premium to be paid to reinstate the cover and how it is calculated.

An example request for payment would be as follows:

REINSTATEMENT
Example of a loss advice received requesting settlement from reinsurers.

REINSURED:	*GREAT FIRE INS. CO*
ASSURED:	*Various*
TREATY:	*FIRE EXCESS OF LOSS*
LIMIT:	*\$ 1 000 000*
EXCESS:	*\$ 500 000*
REINSTATEMENT	*1 AT 100% ADDITIONAL PREMIUM (100% as to time, pro rata as to amount)*
PREMIUM	*\$ 50 000*

We regret to advise that we have incurred substantial losses following the Forest Fires that occurred on 2nd September 2016.

Payment to date	*\$ 1 250 000*
Amount due under the treaty	*\$ 750 000*
Reinstatement payable	*\$ 37 500*
Net due	*\$ 712 500*

We therefore look forward to receiving your remittance shortly.

In the above example forest fires have caused a loss to the treaty which has used up 75% of the cover. The reinstatement conditions allow for one reinstatement at 100% additional premium, 100% as to time and pro-rata as to amount. As 75% of the cover needs to be reinstated, 75% of the premium of \$50,000 has to be paid by way of reinstatement premium = \$37,500.

5.4 Accounting for premium adjustments with example

Once the actual premium for the period is known, usually in January or February of the subsequent year (for annual treaties ending at 31 December), an adjustment is made by applying the premium rate to the actual premium income.

An example is as follows:

From: Ensure Reinsurance Co.
Our Ref: C & A/1

To: East West Fire Insurance Co.
Your Ref: FIC/XL/00

10th March 2016

Dear Sir / Madam,

Your 3rd layer property excess of loss treaty - Minimum and Deposit Premium

The following premium is due to us under the above treaty and we would be pleased to receive the balance of the premium due.

Adjustment of premium at 31/12/2015

$ 500 000 000 at 0.125%	*$ 625 000*
Less M & D Premium	*$ 500 000*
Balance due	*$ 125 000*

Yours faithfully,

Signed

(This function may also be carried out by the reinsurance intermediary.)

In this example the base premium to which the rate is applied has been finalised at $ 500,000,000. Based on the rate of 0.125%, this has resulted in a premium of $ 625,000, and thus an additional premium payable of $ 125,000.

Should a reinsurance intermediary be involved, it would also be necessary for the reinsurer to account to the reinsurance intermediary for the additional fees due.

6. BASIC PROPORTIONAL ACCOUNTING

Learning objective: To be familiar with basic proportional accounting on a clean cut and underwriting year basis. Preparation of four quarterly accounts on both a clean cut basis with incoming and outgoing portfolios and on an underwriting year basis, maintaining reserve accounts, crediting interest, deducting tax.

Proportional accounting is quite different from non-proportional accounting. It comprises of regular – generally quarterly – accounting to reinsurers, the only exception being a request for a cash loss.

The reader is reminded of the main accounting items in the diagram below:

Technical items - OUTGO	**Technical items - INCOME**
Premiums	Commission
Portfolio premium assumption	Overriding commission
Portfolio loss assumption	Profit commission
Loss recoveries	Miscellaneous charges
Cash loss refund	Portfolio premium withdrawal
	Cash losses
	Losses paid
	Portfolio loss withdrawal
Financial items	
Interest on cash deposit	Tax on interest
Premium reserves in (cash deposits)	Premium reserves out (cash deposits)
Loss reserves in (cash deposits)	Loss reserves out (cash deposits)

It is important to highlight that for an insurance company the premium paid to a reinsurer is a debit an item of OUTGO, while from the reinsurer's perspective it is a credit, an item of INCOME Here we look at this aspect from the insurer's viewpoint.

There are two main types of accounting system under proportional treaties – "accounting year" and "underwriting year".

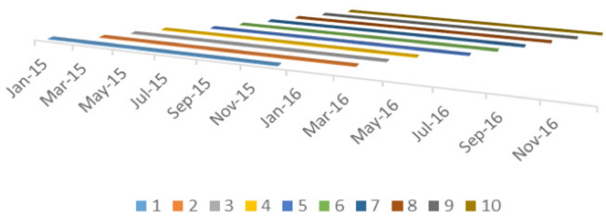
6.1 Accounting years

Under the accounting year system any premium or loss movement taking place during that accounting year is credited or debited based on the terms and conditions in the reinsurance contract for the relevant accounting year irrespective of when the risk incepted, or when the loss may have occurred.

Clearly an insurance company does not write all its policies on 1st January. A company writes business throughout the year. Thus an annual policy incepting on 15th February will run to the 14th February of the next year, a policy written on 15th December will run to 14th December of the next year.

Thus if the period of the treaty is from 1st January to 31st December there will be, at the end of the period i.e. 31st December, a number of policies still running out their term right up to 30th December of the following year.

PREMIUM SPREAD OF 10 POLICIES



The challenge is how best to deal with this issue. Several methods have been devised to deal with this, of which the easiest method is given here.

If one takes 100% of the premium paid for the whole 12 month period, say a premium of $4,000,000 for 2015, one can deduct the reinsurance commission, in this case 20%, and this leaves 80% of the premium to cover the risk itself. If one assumes that policies are evenly distributed over the year, then one can take 50% of the 80% as unearned premium over the whole portfolio at the end of the TREATY period i.e. 31st December. This calculation is shown below:

Premium 2015	4 000 000	
Less 20%	3 200 000	
Less 50%	1 600 000	**= 40% of 2015 premium**

By debiting the current reinsurer with a 40% outgoing premium portfolio, and crediting the reinsurer on the next year with a similar incoming premium portfolio, it is estimated that the current reinsurer is relieved of any further liability regarding unexpired risk and the reinsurer on the next year is correctly remunerated to assume those liabilities. By similarly debiting and crediting a 100% loss portfolio, the transfer is also made for outstanding losses.

Similarly, if the outstanding losses at the end of 2015 are say $500,000 and reinsurer A pays this amount to the reinsured, and the reinsured credits this amount to reinsurer B, then reinsurer B has, in theory, received sufficient funds to cover unexpired risk and to pay any losses outstanding at the end of 2015.

These payments are known as incoming and outgoing "portfolios". Thus in the example above reinsurer A pays an outgoing premium portfolio of 40% of the premiums it has received, and also pays an outgoing loss portfolio of 100% of the outstanding losses, in this case $500,000, and reinsurer B receives an incoming premium portfolio of 40% of the premiums for 2015 and an incoming loss portfolio of 100% of the outstanding losses for 2015 i.e. $500,000. An example of this process is given below. This calculation is shown below:

Premium 2015	4 000 000
Outstanding losses	500 000

Year 2015		**DEBIT**	**CREDIT**
Reinsurer A	**Outgoing premium portfolio**	1 600 000	
	Outgoing loss portfolio	500 000	
Year 2016		**DEBIT**	**CREDIT**
Reinsurer B	**Incoming premium portfolio**		1 600 000
	Outgoing loss portfolio		500 000

As can be noted, in this treaty premium portfolios are calculated at 40% and loss portfolios are calculated at 100% of the outstanding losses at the end of the period.

6.2 Underwriting years

Under the Underwriting Year system, premiums and losses are credited or debited based on the terms and conditions in the reinsurance contract for the relevant underwriting year when the original policy was written and accounts are rendered for each agreed period until the liability under all policies written during that underwriting year is extinguished. See the example below:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO . - UNDERWRITING YEAR BASIS

VIEW OF 2013 IN 2013 AND FURTHER ACCOUNTING IN 2014 AND 2015 © COPYRIGHT

		2013				2013 IN 2014				2013 IN 2015
		1QTR	2QTR	3QTR	4QTR	1QTR	2QTR	3QTR	4QTR	1QTR
GROSS WRITTEN PREMIUM		88,802	57,568	58,377	88,562	8,696	2,609	1,275	1,085	870
CEDING COMMISSION	35%	-31,081	-20,149	-20,432	-30,997	-3,044	-913	-446	-380	-304
NET PREMIUM		57,722	37,419	37,945	57,656	5,652	1,696	829	705	565
CLAIMS PAID		-10,563	-12,786	-25,332	-22,690	-7,129	-8,480	-9,650	-13,543	-6,635
PREMIUM RESERVE RETAINED	40%	-35,521	-23,027	-23,351	-35,425	-3,478	-1,044	-510	-434	-348
PREMIUM RESERVE RELEASED						35,521	23,027	23,351	35,425	3,478
PREMIUM RESERVE WITHHELD BALANCE		-35,521	-58,548	-81,899	-117,323	-85,281	-63,297	-40,457	-5,466	-2,335
CLAIMS OUTSSTANDING RETAINED					-30,314				-16,825	
CLAIMS OUTSSTANDING RELEASED									30,314	
INTEREST (CREDIT ON 1/4LY BASIS)	1%	0	89	146	205	293	213	158	101	14
INTEREST (CREDIT ANNUAL BASIS)	1%								303	
RESULT		11,638	1,695	-10,591	-30,659	30,859	15,412	14,178	36,047	-2,925

In the example above the accounts are produced on a quarterly basis and there is no incoming or outgoing portfolio, the reinsured must produce quarterly accounts for the reinsurer until all liability under the policies written during, in this case, 2013, are extinguished. Thus the premiums will taper off quite quickly as fewer adjustments to policy premiums become necessary, while claims taper off more slowly, but there are few left by the end of the third year in this property account. Amounts will become smaller and smaller as the underwriting year liabilities come to an end, and accounts may even have to be produced for very small sums.

For this reason, it is costly to produce accounts on an underwriting year basis. In the example above there are already 9 quarterly accounts for the underwriting year 2013. If accounts had also to be produced for the underwriting years 2014 and 2015 and it takes at least five years for the risks and claims to run off, then it will be necessary to produce 60 quarterly accounts altogether just for these three underwriting years.

Generally, business is only accounted for on an underwriting basis where it is necessary to review the development of each underwriting year in detail, and this essentially applies to longer tail business and business which is typically not annual such as contractors all risks covers or certain marine covers, where it is very difficult to assess the outstanding losses already after the first year and each year may vary considerably in the length of time to close it off.

It is advisable to have an option in the treaty wording for the reinsurer to be able to commute a year once most of the business for that underwriting year has run off to avoid having to continue to produce accounts when it is hardly economic to do so.

6.3 Commissions

There are three main types of commission:

6.3.1 Fixed commission

Generally, if a treaty has relatively stable results, then a flat commission is agreed between the parties. This is a commission paid to the cedant by the reinsurer based on a fixed percentage of the gross premium agreed at inception. It is often combined with a profit commission (see below) to encourage the cedant to produce good results.

6.3.2 Sliding scale commission

This method has the advantage of not only automatically rewarding a ceding company for a profitable treaty result but also imposes a penalty for a bad loss experience. Essentially the ceding company debits the reinsurer with a provisional commission (usually calculated at an agreed rate) on premiums paid during the year, and at the end of the year the commission is adjusted according to a formula based on the loss ratio for the year.

The loss ratio is calculated according to the formula:

$$\frac{\text{Incurred loss for the year x 100}}{\text{Earned premiums for the year}}$$

The incurred loss is calculated according to the following formula:
= losses plus loss expenses paid by the reinsurer during the year
+ the outstanding loss reserve at the end of current year
- the outstanding loss reserve at the end of preceding year.

The earned premium is calculated according to the following formula:
= premiums for the current year paid to the reinsurer
+ unearned premium reserve at the end of preceding year
- unearned premium reserve at the end of current year.

The sliding scale commission will be subject to negotiation but may, for example, provide for a 0.5% increase in commission for every 1% reduction in the loss ratio, with limits of, say:

30% commission if the loss ratio is 66% or more;
40% commission if the loss ratio is 46% or less.

Thus the sliding scale could look as follows:

SLIDING SCALE COMMISSION TABLE

Commission	Loss Ratio	Commission	Loss Ratio
30%	66%	35%	56%
30.50%	65%	35.50%	55%
31%	64%	36%	54%
31.50%	63%	36.50%	53%
32%	62%	37%	52%
32.50%	61%	37.50%	51%
33%	60%	38%	50%
33.50%	59%	38.50%	49%
34%	58%	39%	48%
34.50%	57%	39.50%	47%

6.3.3 Profit commission

Profit Commission is designed to serve as an incentive to the cedant for the continued high quality of underwriting. A profit commission statement is a mirror of the performance of a particular reinsurance treaty.

Below are the main items used to calculate a profit commission:

INCOME	OUTGO
1. Reserve for unexpired risks at the beginning of the accounting period (usually an agreed percentage of the reinsurance premium of the preceding year).	1. Commission paied during the accounting period.
2. Reserve for unpaid claims at the beginning of the accounting period.	2. Claims and expenses paid during the accounting period.
3. Reinsurance premiums received during the accounting period (this way may be on a net premium or on a gross premium basis - if net, then no basic commission will appear on Outgo side).	3. Administrative expenses of the reinsurer (the percentage will usually be agreed at inception and this is applied to items 3 on the income side).
	4. Reserve for unexpired risks at the end of the accounting period (usually an agreed percentage of the reinsurance premium received during the current year).
	5. Reserve for unpaid claims, if any, as at the end of the accounting period.
	6. As may be agreed, any loss carried forward from the profit commission statement of the preceding year.

If the “income” exceeds the “outgo” then a profit will have been made. If however, the outgo exceeds the income then a loss will have been made.

A profit sharing percentage will have been agreed at the inception of the treaty and the positive balance on the profit commission statement of any year would be shared in those percentages.

It should be noted that it is usual to provide in the treaty that in the event of a year resulting in a loss, such loss may be carried forward to extinction (i.e. the loss amount remains a debit item on the profit commission statements for subsequent years until extinguished) or the loss is carried forward for an agreed number of years and then dropped.

It is important that an agreed definition of premium is provided in the treaty to avoid confusion and misunderstanding when preparing the profit commission statement.

An example of a profit commission calculation is given under “clean-cut accounting” below.

6.4 Portfolio

6.4.1 Portfolio premiums

The term "portfolio premium" means that proportion of the net premium of an insurance policy that at any given time relates to the unexpired period of the insurance. For example, if a policy runs from 30th June 2015 to 29th of June 2016, then at 1st January 2016 (which is often the renewal date of a cedant's proportional programme) the policy still has six months to run.

In a proportional reinsurance account, the assumption or withdrawal of unexpired cessions is effected by an assumption or withdrawal of a "portfolio premium" (assumption = incoming unexpired risk, withdrawal = outgoing unexpired risk).

For the calculation of portfolio premiums to be mathematically correct, the unexpired premium on individual cessions should be calculated by counting the number of days the policy still has to run at the anniversary date of the treaty to the end of the policy period, and then applying the number of unexpired days to the net premium to arrive at the pro rata premium relating to this unexpired period.

Under a treaty with hundreds of cessions commencing at various dates, the cost and inconvenience of calculating portfolio premiums in this way would be considerable.

Two basic methods are used to simplify this process. Other methods will be reviewed in the advanced technical reinsurance accounting manual.

The first method is known as the 24ths method. An example is given below:

Month	Premium in GBP	Unexpired proportion	Portfolio Premium
January	3 000 000.00	1/24	125 000.00
February	1 250 000.00	3/24	156 250.00
March	1 900 000.00	5/24	395 833.33
April	2 000 000.00	7/24	583 333.33
May	3 000 000.00	9/24	1 125 000.00
June	1 350 000.00	11/24	618 750.00
July	2 800 000.00	13/24	1 516 666.67
August	2 100 000.00	15/24	1 312 500.00
September	1 700 000.00	17/24	1 204 166.67
October	3 500 000.00	19/24	2 770 833.33
November	2 600 000.00	21/24	2 275 000.00
December	1 350 000.00	23/24	1 293 750.00
	Total		13 377 083.33
	Commission 33%		-4 414 437.50
	Premium portfolio		8 962 645.83

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The logic is to take the mid-point in each month, and apply a fraction based on each month having two periods, the first up to the mid-point of the month, the second from the mid-point to the end of the month. Based on each month having two periods, so 12X2=24 and hence the 24ths system.

In the table above 1/24th of the premium for January is calculated, 3/24ths or 1/8th of the premium for February is calculated, 5/24ths of the premium for March, etc to the end of the year, and each of these individual results is totaled to give the figure of GBP 8,962,645.83 in the example above.

Based on this example, the reinsurers in the calculation year would be debited with their share of GBP 8,962,645.83 and reinsurers in the next year would be credited with their share of this sum.

The second method is the 40% method, which simply takes 40% of the premiums for the year, as in the example below:

Month	**Premium in GBP**
January	3 000 000.00
February	1 250 000.00
March	1 900 000.00
April	2 000 000.00
May	3 000 000.00
June	1 350 000.00
July	2 800 000.00
August	2 100 000.00
September	1 700 000.00
October	3 500 000.00
November	2 600 000.00
December	1 350 000.00
Total	26 550 000.00
40%	10 620 000.00

It will be seen that in this case the result is an amount of GBP 10,620,000. Thus the reinsurers in the calculation year would be debited with their share of GBP 10,620,000 and reinsurers in the next year would be credited with their share of this sum.

In this example the 24ths system has resulted in a lower figure (GBP 8,962,645.83) than the 40% system (GBP 10,620,000), but this result could be the other way around, depending on the premium distribution per month during the year, for example, if under the 24ths system there was a considerable bias for premiums towards the end of the year rather than the beginning of the year.

6.4.2 Portfolio losses

Just as there is a need to equitably transfer the unexpired risk from outgoing reinsurers to the incoming reinsurers in a subsequent year, so the same needs to be done in respect of outstanding losses.

Generally, the calculation of the loss portfolio is based on 100% of the outstanding losses. At the anniversary date, the outgoing reinsurers are debited with their share of the losses outstanding and the incoming reinsurers are credited with their share of this sum.

On a "clean-cut" basis, the reinsurer will be credited with its share of portfolio losses at the anniversary date of the treaty. Upon termination of the treaty year, the reinsurer will be debited with its share of a portfolio loss withdrawal.

Even for continuing reinsurers, the portfolio premiums and losses will be withdrawn upon termination of the treaty year and reassumed at the renewal date. This system greatly reduces the administrative work involved, compared with treaties allowing risks to run off to natural expiry.

6.5 Reserves

The calculation of premium reserves should, theoretically, follow the same principles as that of the portfolio premium. However, it is common practice for premium reserves to be calculated at a fixed rate of premiums and this is often 40% (as in the simple premium portfolio calculation).

In quarterly accounts, the reserve is calculated on a quarter's premiums and withheld for a year to be released in the same quarter of the following year, e.g.:

Account	Premium	Premium reserve retained 40%	Premium reserve released 40%	Total premium reserve withheld
1Q13	2 300 000	-920 000		-920 000
2Q13	3 500 000	-1 400 000		- 2 320 000
3Q13	2 900 000	-1 160 000		-3 480 000
4Q13	3 250 000	-1 300 000		-4 780 000
1Q14	3 000 000	-1 200 000	920 000	-5 060 000
2Q14	2 850 000	-1 140 000	1 400 000	-4 800 000
3Q14	3 100 000	-1 240 000	1 160 000	-4 880 000
4Q14	3 950 000	-1 580 000	1 300 000	-5 160 000

As can be seen in the above table, as each quarter of premiums is credited to the reinsurer, a 40% part of those premiums is debited and retained in the premium reserve account. The retained amount is released in the same quarter in the following year. Thus, in the above example, one can note that in the 2Q13 (in column 3) an amount of 1,400,000 was retained, and it is released in the 2Q14 (in column 4).

An example of this process is given in more detail in the accounting examples below.

6.6 Clean-cut accounting.

The various elements of an account have been discussed above and these will now be combined to prepare accounts for a full 12 month period.

Here the quota share treaty in question has a fixed ceding commission of 35%, a premium reserve of 40%, a portfolio premium calculated at 40%, an outstanding loss portfolio calculated at 100% and interest on reserves at 1% per annum. The profit commission is 15%, with reinsurers expenses calculated at 7.5% and losses to extinction.

6.6.1 *Preparation of 1st quarter account with example.*

The accounts department of the Royal Insurance Company is provided with the following information to prepare the 1Q2013 quarterly account:

Premiums: 220,613
Paid claims: 26,474.

Based on the above treaty information, Mrs. Alena, who is responsible for issuing the accounts for Royal's quota share treaty, prepares a spread sheet as follows:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO

PROCESS TO FINALISE 1ST QTR ACCOUNT AND PROFIT COMMISSION STATEMENT FOR 2013 © COPYRIGHT

				2013 E 1QTR
8	GROSS WRITTEN PREMIUM			220 613
9	CEDING COMMISSION		35%	-77 215
11	NET PREMIUM			143 399
13	CLAIMS PAID			-26 474
15	PREMIUM RESERVE RETAINED		40%	-88 245
16	PREMIUM RESERVE RELEASED			
17	PREMIUM RESERVE WITHHELD BALANCE			-88 245
19	OUTWARD PREMIUM PORTFOLIO 40%			
20	INWARD PREMIUM PORTFOLIO			
22	CLAIMS OUTSTANDING			
23	OUTWARD LOSS PORTFOLIO		100%	
24	INWARD LOSS PORTFOLIO			
26	INTEREST (CREDIT ON 1/4LY BASIS) 1%			0
	PROFIT COMMISSION CALC			
29	INCOME	GROSS PREMIUM		
30		INWARD UPR		
31		O/S LOSSES		
33	OUTGO	COMMISSION	35%	
34		EXPENSES	7.5%	
35		LOSSES PAID		
36		LOSSES O/S		
37		OUTGOING UPR		
39		PROFIT / LOSS		
41		LOSS C/FWD	EXTINCTION	
43		PROFIT COMMISSION	15%	
45	NET BALANCE DUE TO/FROM			
46	REINSURERS			28 680
48	CUMULATIVE BALANCE TO REINSURERS			28 680

Mrs. Alena calculates the commission, and the premium reserve to be retained, all based on the information contained in the treaty and as noted above, and calculates a balance of 28,680 due to reinsurers.

Mrs. Alena thus prepares the following account:

PROPORTIONAL TREATY ACCOUNTING - EXAMPLE ACCOUNTING STATEMENT

Contract: Royal Ins Co - Quota Share Treaty

1st Quarter Account

Income	Outgo	CASH Income	ACCOUNT Outgo
	Gross Premium E8		220 613
Commission E9		77 215	
Returns			
Premium portfolio Outgoing	Premium portfolio Incoming		
Premium reserve Retained E15	Premium reserve Released	88 245	
	Interest on Reseves		
Profit commission			
Claims E13	Refunds	26 474	
Claims portfolio outgoing	Claims portfolio ingoing		
Balance		26 680	0
Total		220 613	220 613

		RESERVE Income	ACCOUNT Outgo
Balance brought forward			0
Premium reserve released	Premium reserve retained		88 245
Balance carried forward			
Total			88 245

INFORMATION

Outstanding losses
at end of period

E15, etc = reference to completd work sheet

As will be noted, the reference numbers refer to the spread sheet. Thus E8 on the spreadsheet is the gross written premium for the 1Q13, and this item is transferred as a debit to the reinsurance account, as Royal has to pay this amount out to reinsurers.

The balance on the account is calculated independently by Mrs. Alena so she can double check against the balance on her spreadsheet to be sure the figures have been correctly transferred.

6.6.2 Preparation of 2nd quarter account with example

The accounts department of the Royal Insurance Company is provided with the following information to prepare the 2Q2013 quarterly account:

Premiums: 132,368
Paid claims: 29,121

Based on the above treaty information, Mrs. Alena, who is responsible for issuing the accounts for Royal's quota share treaty, adds to her spread sheet as follows:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO

PROCESS TO FINALISE 2ND QTR ACCOUNT AND PROFIT COMMISSION STATEMENT FOR 2013

				2013	
				E	F
				1QTR	2QTR
8	GROSS WRITTEN PREMIUM			220 613	132 368
9	CEDING COMMISSION		35%	-77 215	-46 329
11	NET PREMIUM			143 399	86 039
13	CLAIMS PAID			-26 474	-29 121
15	PREMIUM RESERVE RETAINED		40%	-88 245	-52 947
16	PREMIUM RESERVE RELEASED				
17	PREMIUM RESERVE WITHHELD BALANCE			-88 245	-141 193
19	OUTWARD PREMIUM PORTFOLIO 40%				
20	INWARD PREMIUM PORTFOLIO				
22	CLAIMS OUTSTANDING				
23	OUTWARD LOSS PORTFOLIO		100%		
24	INWARD LOSS PORTFOLIO				
26	INTEREST (CREDIT ON 1/4LY BASIS) 1%			0	221
	PROFIT COMMISSION CALC				
29	INCOME	GROSS PREMIUM			
30		INWARD UPR			
31		O/S LOSSES			
33	OUTGO	COMMISSION	35%		
34		EXPENSES	7.5%		
35		LOSSES PAID			
36		LOSSES O/S			
37		OUTGOING UPR			
39		PROFIT / LOSS			
41		LOSS C/FWD	EXTINCTION		
43		PROFIT COMMISSION	15%		
45	NET BALANCE DUE TO/FROM				
46	REINSURERS			28 680	4 192
48	CUMULATIVE BALANCE TO REINSURERS			28 680	32 871

Mrs. Alena calculates the commission, and the premium reserve to be retained, and as the treaty also provides for interest on reserves there is an additional amount to calculate for this item as well. As 88,245 has been held on deposit on behalf of the reinsurers for three months, so Mrs. Alena calculates 1 quarter of interest and adds this amount to the spreadsheet. She then calculates the balance due to reinsurers of 4,192.

Mrs. Alena thus prepares the following account:

PROPORTIONAL TREATY ACCOUNTING - EXAMPLE ACCOUNTING STATEMENT

Contract: Royal Ins Co - Quota Share Treaty

2nd Quarter Account

Income	Outgo	CASH Income	ACCOUNT Outgo
	Gross Premium F8		132 368
Commission F9		46 329	
Returns			
Premium portfolio Outgoing	Premium portfolio Incoming		
Premium reserve Retained F15	Premium reserve Released	52 947	
	Interest on Reseves F26		221
Profit commission			
Claims F13	Refunds	29 121	
Claims portfolio outgoing	Claims portfolio ingoing		
Balance		4 192	0
Total		132 589	132 589

		RESERVE Income	ACCOUNT Outgo
Balance brought forward			88 245
Premium reserve released	Premium reserve retained		52 947
Balance carried forward			
Total			141 193

INFORMATION

Outstanding losses at end of period

F15, etc = reference to completd work sheet

Once again the reference numbers refer to the spread sheet. Thus F8 on the spreadsheet is the gross written premium for the 2Q13, and this item is transferred as a debit to the reinsurance account, as Royal has to pay this amount out to reinsurers.

The balance on the account is calculated independently by Mrs. Alena so she can double check against the balance on her spreadsheet to be sure the figures have been correctly transferred.

6.6.3 Preparation of 3rd quarter account with example

The accounts department of the Royal Insurance Company is provided with the following information to prepare the 3Q2013 quarterly account:

Premiums: 161,783
Paid claims: 48,535

Based on the above treaty information, Mrs. Alena, who is responsible for issuing the accounts for Royal's quota share treaty, adds to her spread sheet as follows:

				1QTR	2QTR	3QTR
8	Gross written premium			220 613	132 368	161 783
9	Ceding commission		35%	-77 215	-46 329	-56 624
11	Net premium			143 399	86 039	105 159
13	Claims paid			-26 474	-29 121	-48 535
15	Premium reserve retained		40%	-88 245	-52 947	-64 713
16	Premium reserve released					
17	Premium reserve withheld balance			-88 245	-141 193	-205 906
19	Outward premium portfolio 40%					
20	Inward premium portfolio					
22	Claims outstanding					
23	Outward loss portfolio		100%			
24	Inward loss portfolio					
26	Interest (Credit on 1/4ly basis) 1%			0	221	353
	PROFIT COMMISSION CALC					
29	Income	Gross premium				
30		Inward UPR				
31		O/S losses				
33	Outgo	Commission	35%			
34		Expenses	7.5%			
35		Losses paid				
36		Losses O/S				
37		Outgoing UPR				
39		Profit / Loss				
41		Loss c/fwd	Extinction			
43		Profit commission	15%			
45	Net balance due to/from					
46	Reinsurers			28 680	4 192	-7 736
48	Cumulative balance to reinsurers			28 680	32 871	25 135

Mrs. Alena calculates the commission, the premium reserve to be retained, and the interest on reserves resulting in a balance due from reinsurers of 7,736.

Mrs. Alena thus prepares the following account:

PROPORTIONAL TREATY ACCOUNTING - EXAMPLE ACCOUNTING STATEMENT

Contract: Royal Ins Co - Quota Share Treaty

3rd Quarter Account

		CASH	ACCOUNT
Income	Outgo	Income	Outgo
	Gross Premium G8		161 783
Commission G9		56 624	
Returns			
Premium portfolio Outgoing	Premium portfolio Incoming		
Premium reserve Retained G15	Premium reserve Released	64 713	
	Interest on Reseves G26		353
Profit commission			
Claims G13	Refunds	48 535	
Claims portfolio outgoing	Claims portfolio ingoing		
Balance		0	7 736
Total		169 872	169 872

		RESERVE	ACCOUNT
		Income	Outgo
Balance brought forward			141 193
Premium reserve released	Premium reserve retained		64 713
Balance carried forward			
Total			205 906

INFORMATION

Outstanding losses at end of period

G15, etc = reference to completd work sheet

Once again the reference numbers refer to the spread sheet. Thus G8 on the spreadsheet is the gross written premium for the 3Q13, and this item is transferred as a debit to the reinsurance account, as Royal has to pay this amount out to reinsurers.

The balance on the account is calculated independently by Mrs. Alena so she can double check against the balance on her spreadsheet to be sure the figures have been correctly transferred.

6.6.4 Preparation of 4th quarter account with example

The accounts department of the Royal Insurance Company is provided with the following information to prepare the 4Q2013 quarterly account:

Premiums: 230,153
Paid claims: 61,772

Based on the above treaty information, Mrs. Alena, who is responsible for issuing the accounts for Royal's quota share treaty, adds to her spread sheet as follows:

				2013 E 1QTR	F 2QTR	G 3QTR	H 4QTR
8	Gross written premium			220 613	132 368	161 783	230 153
9	Ceding commission		35%	-77 215	-46 329	-56 624	-80 554
11	Net premium			143 399	86 039	105 159	149 599
13	Claims paid			-26 474	-29 121	-48 535	-61 772
15	Premium reserve retained		40%	-88 245	-52 947	-64 713	-92 061
16	Premium reserve released						
17	Premium reserve withheld balance			-88 245	-141 193	-205 906	-297 967
19	Outward premium portfolio 40%						-297 967
20	Inward premium portfolio						
22	Claims outstanding						-44 123
23	Outward loss portfolio		100%				-44 123
24	Inward loss portfolio						
26	Interest (Credit on 1/4ly basis) 1%			0	221	353	515
	PROFIT COMMISSION CALC						
29	Income	Gross premium					744 918
30		Inward UPR					0
31		O/S losses					0
33	Outgo	Commission	35%				-260 721
34		Expenses	7.5%				-55 869
35		Losses paid					-165 901
36		Losses O/S					-44 123
37		Outgoing UPR					-297 967
39		Profit / Loss					-79 663
41		Loss c/fwd	Extinction				-79 663
43		Profit commission 15%					0
45	Net balance due to/from						
46	Reinsurers			28 680	4 192	-7 736	-345 808
48	Cumulative balance to reinsurers			28 680	32 871	25 135	-320 673

As this is the 4th quarter account, it is necessary to enter the portfolio movements in addition to the commission and premium reserve calculations. Thus an outgoing premium portfolio is calculated based on 40% of the gross written premium for the year, and an outstanding loss portfolio is included being 100% of the outstanding losses calculated for the year. (The profit commission calculation is described in more detail below.) The resulting balance is 345,808 due from reinsurers.

Mrs Alena thus prepares the account for the 4th Quarter as follows:

PROPORTIONAL TREATY ACCOUNTING - EXAMPLE ACCOUNTING STATEMENT

Contract: Royal Ins Co - Quota Share Treaty

4th Quarter Account

Income	Outgo	Cash Income	Account Outgo
	Gross Premium H8		230 153
Commission H9		80 554	
Returns			
Premium portfolio Outgoing H19	Premium portfolio Incoming	297 967	
Premium reserve Retained H15	Premium reserve Released	92 061	
	Interest on Reseves H26		515
Profit commission		0	
Claims H13	Refunds	61 772	
Claims portfolio outgoing	Claims portfolio ingoing H22	44 123	
Balance		0	345 808
Total		576 476	576 476

		Reserve Income	Account Outgo
Balance brought forward			205 906
Premium reserve released	Premium reserve retained		92 061
Balance carried forward			
Total			297 967

INFORMATION

Outstanding losses at end of period

H15, etc = reference to completd work sheet

Once again the reference numbers refer to the spread sheet. Thus H8 on the spreadsheet is the gross written premium for the 4Q13, and this item is transferred as a debit to the reinsurance account, as Royal has to pay this amount out to reinsurers.

The balance on the account is calculated independently by Mrs. Alena so she can double check this against the balance on her spreadsheet to be sure the figures have been correctly transferred.

6.6.5 Preparation of a profit commission statement with example

In the above 4th Quarter account, Mrs. Alena has entered “0” for the profit commission amount payable. As can be seen from the spreadsheet she prepared there is a loss for the year of 79,663. However, as reinsurers will want to be informed how the calculation by Royal was made, Mrs Alena attaches the following to the 4th quarter account:

Contract: Royal Ins Co - Quota Share Treaty

Profit commission statement for 2013

		CASH	ACCOUNT
Income	**Outgo**	**Income**	**Outgo**
	Gross Premium H29		744 918
Commission H33		260 721	
Reinsurers' expenses H34		55 869	
Premium reserve Retained H37	**Premium reserve Released**	297 967	
Claims H35		165 901	
Claims portfolio outgoing H36	**Claims portfolio ingoing** H22	44 123	
Profit	**Loss**	0	79 663
Total		824 581	824 581
		Income	**Outgo**
Profit commission			0

Once again the reference numbers refer to the spread sheet. Thus H29 on the spreadsheet is the gross written premium for the year 2013, and this item is transferred as a debit to the profit commission statement, as the account is viewed from the Royal’s accounting position.

The balance on the statement is calculated independently by Mrs. Alena so she can double check this against the result on her spreadsheet to be sure the figures have been correctly transferred.

The above is the process to follow to complete proportional accounts on a clean-cut basis. Below we review the preparation of accounts on an underwriting year basis.

6.7 Underwriting year accounting

The various elements of an account – commissions and reserves - have been discussed above and these will again be combined to prepare accounts on an underwriting year basis.

Here the surplus treaty in question has a flat ceding commission of 35%, a premium reserve of 40%, and an outstanding loss reserve calculated at 100% and interest on reserves at 1% per annum.

The process of preparing accounts is very similar to that on a clean cut basis, except that premiums and claims must be broken down by underwriting year and accounted separately.

This means that the spread sheet that Mrs. Alena used above carries on for each underwriting year until all liabilities are extinguished, or, depending on the treaty wording the year is commuted.

In the example below, we will prepare the 1st Quarter account 2013 for Royal's marine surplus treaty which has been running since 2011.

Mrs. Alena has kept spread sheets for each underwriting year. Thus as regards 2011 eight accounts have already been rendered:

1st Quarter 2011
2nd Quarter 2011
3rd Quarter 2011
4th Quarter 2011,
2011 1st Quarter in 2012
2011 2nd Quarter in 2012
2011 3rd Quarter in 2012
2011 4th Quarter in 2012

The spread sheet thus looks as follows:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO . - UNDERWRITING YEAR BASIS

View of 2011 in 2011 and further accounting in 2012

Underwriting Year 2011		2011				2011 in 2012			
		1QTR	2QTR	3QTR	4QTR	1QTR	2QTR	3QTR	4QTR
Gross written premium		73 538	44 123	53 928	76 453	7 354	2 206	1 079	917
Ceding commission	35%	-25 738	-15 443	-18 875	-26 759	-2 574	-772	-377	-321
Net premium		47 800	28 680	35 053	49 694	4 780	1 434	701	596
Claims paid		-8 825	-9 707	-16 178	-20 591	-5 736	-7 324	-8 677	-9 707
Premium reserve retained	40%	-29 415	-17 649	-21 571	-30 581	-2 942	-882	-431	-367
Premium reserve released						29 415	17 649	21 571	30 581
Premium reserve withheld balance		-29 415	-47 064	-68 635	-99 216	-72 743	-55 976	-34 837	-4 622
Claims outsstanding retained					-14 708				-8 825
Claims outsstanding released									14 708
Interest (Credit on 1/4ly basis)	1%	0	74	118	172	248	182	140	87
Interest (Credit annual basis)	1%								147
Balance		9 560	1 397	-2 579	-16 013	25 766	11 058	13 303	27 221

It will be noted that premiums tail off quite substantially after the first 4 quarters. Also one can note that the premium reserves retained in 2011 are released in 2012 in the same quarter in which they were originally retained in the previous year, and a running balance is kept to calculate the interest due. Interest on outstanding losses is credited annually when the outstanding loss reserve retained in the previous year is released.

For the 2012 underwriting year Mrs. Alena has also kept a spread sheet as follows:

CASE STUDY - PPN TREATY A/CTING - ROYAL INS CO. - UNDERWRITING YEAR BASIS

VIEW OF 2012 IN 2012 © COPYRIGHT

UNDERWRITING YEAR 2012			2012			
			1QTR	2QTR	3QTR	4QTR
GROSS WRITTEN PREMIUM		285 247	87 921	62 017	50 741	84 568
CEDING COMMISSION	35%	-99 837	-30 772	-21 706	-17 759	-29 599
NET PREMIUM		185 411	57 149	40 311	32 982	54 970
CLAIMS PAID		-98 183	-15 169	-17 112	-25 982	-39 921
PREMIUM RESERVE RETAINED	40%		-35 168	-24 807	-20 296	-33 827
PREMIUM RESERVE RELEASED						
PREMIUM RESERVE WITHHELD BALANCE		-114 099	-35 168	-59 975	-80 272	-114099
CLAIMS OUTSSTANDING RETAINED		-28 657				-28 657
CLAIMS OUTSSTANDING RELEASED						
INTEREST (CREDIT ON 1/4LY BASIS)	1%		0	88	150	201
INTEREST (CREDIT ANNUAL BASIS)	1%					
BALANCE		-55 528	6 811	-1 520	-13 147	-47 235

This underwriting year has only had accounts rendered for 4 quarters so far being:

1st Quarter 2012
2nd Quarter 2012
3rd Quarter 2012
4th Quarter 2012

The Royal's accounting department has now been provided with the following figures for the 1st quarter 2013:

Gross written premium 1Q13	**97 995**
Underwriting year 2013	88 802
Underwriting year 2012	8 457
Underwriting year 2011	735
Paid claims 1Q13	**-21 121**
Underwriting year 2013	-10 563
Underwriting year 2012	-7 050
Underwriting year 2011	-3 508

Mrs. Alena thus needs to make up accounts for:

2011 at 1st Quarter 2013
2012 at 1st Quarter 2013
2013 T 1st Quarter 2013

The final columns of Mrs. Alena's spread sheets would look as follows:

CASE STUDY - PPN TREATY A/CTING - ROYAL INS CO. - UNDERWRITING YEAR BASIS

		2011 in 2013			2012 in 2013			2013
		4QTR	1QTR		4QTR	1QTR		4QTR
Gross written premium		917	735		84 568	8 457		88 802
Ceding commission	35%	-321	- 257	35%	-29 599	-2 960	35%	-31 081
Net premium		596	478		54 970	5 497		57 722
Claims paid		-9 707	-3 508		-39 921	-7 050		-10 563
Premium reserve retained	40%	-367	-294	40%	-33 827	-3 383	40%	35 521
Premium reserve released		30 581	2 942			35 168		
Premium reserve withheld balance		-4 622	-1 975		-114 099	-82 313		-35 521
Claims outsstanding retained		-8 825			-28 657			
Claims outsstanding released		14 708						
Interest (Credit on 1/4ly basis)	1%	87	12	1%	201	285	1%	
Interest (Credit annual basis)	1%	147		1%			1%	
Result		27 221	-371		-47235	30 517		11 638

Thus for each underwriting year Mrs. Alena must prepare her spread sheet, adding to those of the underwriting years 2011 and 2012, and preparing a fresh sheet for 2013. The process to prepare the spread sheets is similar to that shown above under clean-cut treaty accounting except that premiums and claims must be broken down by underwriting year and separate accounts must be produce.

Hence for 2011 at 1st Quarter 2013, Mrs. Alena produces the following account:

CONTRACT: ROYAL INS CO - MARINE SURPLUS TREATY
1ST QUARTER ACCOUNT 2013 - UNDERWRITING YEAR 2011

INCOME	OUTGO	CASH INCOME	ACCOUNT OUTGO
	GROSS PREMIUM F7		735
COMMISSION F8		257	
RETURNS			
PREMIUM RESERVE RETAINED F14	PREMIUM RESERVE RELEASED F15	294	2 942
	INTEREST ON RESERVES F21		12
CLAIMS F12		3 508	
CLAIMS RESERVE RETAINED	CLAIMS RESERVE RELEASE		
BALANCE		0	371
TOTAL		4 059	4 059

		RESERVE INCOME	ACCOUNT OUTGO
BALANCE BROUGHT FORWARD			- 4 622
PREMIUM RESERVE RELEASED	PREMIUM RESERVE RETAINED	-294	2 942
BALANCE CARRIED FORWARD			
TOTAL			- 1975

INFORMATION

OUTSTANDING LOSSES AT END OF PERIOD

F15, ETC = REFERENCE TO COMPLETD WORK SHEET

Once again the reference numbers refer to the spread sheet. Thus F7 on the spreadsheet is the gross written premium for the year 2011 at 1st Quarter 2013, and this item is transferred as a debit as the account is viewed from the Royal's accounting position.

The balance on the account is calculated independently by Mrs. Alena so she can double check this against the result on her spreadsheet to be sure the figures have been correctly transferred.

For 2012 at 1st Quarter 2013, Mrs. Alena produces the following account:

Contract: Royal Ins Co - Marine Surplus Treaty

1st quarter account 2013 - Underwriting year 2012

		CASH	ACCOUNT
Income	Outgo	Income	Outgo
	Gross Premium I7		8 457
Commission I8		2 960	
Returns			
Premium reserve Retained I14	Premium reserve Released I15	3 383	35 168
	Interest on Reserves I21		285
Claims I12		7 050	
Claims reserve Retained	Claims reserve Release		
Balance		30 517	0
Total		43 910	43 910

		RESERVE	ACCOUNT
		Income	Outgo
Balance brought forward			-114 099
Premium reserve released	Premium reserve retained	-3 383	35 168
Balance carried forward			
Total			-82 313

INFORMATION

Outstanding losses at end of period

I15, etc = reference to completd work sheet

Once again the reference numbers refer to the spread sheet. Thus I7 on the spreadsheet is the gross written premium for the year 2012 at 1st Quarter 2013, and this item is transferred as a debit as the account is viewed from the Royal's accounting position.

The balance on the account is calculated independently by Mrs. Alena so she can double check this against the result on her spreadsheet to be sure the figures have been correctly transferred.

For 2013 at 1st Quarter 2013, Mrs. Alena produces the following account:

Contract: Royal Ins Co - Marine Surplus Treaty

1st quarter account 2013 - Underwriting year 2013

Income	Outgo	CASH Income	ACCOUNT Outgo
	Gross Premium K7		88 802
Commission K8		31 081	
Returns			
Premium reserve Retained K14	Premium reserve Released K15	35 521	
	Interest on Reserves		
Claims K12		10 563	
Claims reserve Retained	Claims reserve Release		
Balance		11 638	
Total		88 802	88 802

		RESERVE Income	ACCOUNT Outgo
Balance brought forward			0
Premium reserve released	Premium reserve retained	-35 521	0
Balance carried forward			
Total			-35 521

INFORMATION

Outstanding losses
at end of period

K15, etc = reference to completd work sheet

Once again the reference numbers refer to the spread sheet. Thus K7 on the spreadsheet is the gross written premium for the year 2013 at 1st Quarter 2013, and this item is transferred as a debit as the account is viewed from the Royal's accounting position.

The balance on the account is calculated independently by Mrs. Alena so she can double check this against the result on her spreadsheet to be sure the figures have been correctly transferred.

It is clear that to produce accounts on an underwriting year basis involves much more work than producing accounts on a clean-cut basis.

Learning objective: To be familiar with the preparation of statistics on a clean cut and underwriting year basis

7.1 Preparation of statistics on a clean-cut and underwriting year basis with example

There can be a number of reasons to produce statistics. The purpose may be to review results from the cedant's perspective, it may be to review results from the reinsurers' perspective, or it may be to review results by class, by territory or for some other purpose.

Where a treaty contains a profit commission statement, it is relatively straightforward to produce statistics.

Below is an extract from a spread sheet, like the ones we have building above, of profit commission statements for a three year period:

PROFIT COMMISSION CALC

			Year 1	Year 2	Year 3
Income	Gross written premium		400 000	450 000	500 000
	Inward UPR		0	160 000	180 000
	O/S Losses		0	10 000	40 000
Income	Commission	30%	-120 000	-135 000	-150 000
	Expenses	5%	-20 000	-22 500	-25 000
	Losses paid		-50 000	-260 000	-200 000
	Losses O/S		-10 000	-40 000	-50 000
	Outgoing UPR		-160 000	-180 000	-200 000
	Profit / Loss		40 000	-17 500	95 000
	Loss c/fwd	2 years	0	0	-17 500
	Profit commission	20%	-8 000	0	-15 500

If one looks at the profit/loss line year 1 produced a profit of 40,000, year 2 a loss of 17,500 and year 3 a profit of 95,000. So based on the profit commission formula, the treaty has been overall profitable for reinsurers – i.e. the overall profits are higher than the overall losses.

The reinsurers expenses item is really there to take account of the fact that the reinsurer has expenses and that the profit commission calculation should reflect this fact, but if the reinsurer is looking for a result from a purely technical viewpoint, then it may well remove this item.

On this basis, the results might look as follows:

PROFIT COMMISSION CALC

			Year 1	Year 2	Year 3	Totals
Income	Gross written premium		400 000	450 000	500 000	1 350 000
	Inward UPR		0	160 000	180 000	
	O/S Losses		0	10 000	40 000	
Income	Commission	30%	-120 000	-135 000	-150 000	
	Expenses	5%	0	0	0	
	Losses paid		-50 000	-260 000	-200 000	
	Losses O/S		-10 000	-40 000	-50 000	
	Outgoing UPR		-160 000	-180 000	-200 000	
	Profit commission	20%	-8 000	0	-15 500	
	Profit / Loss		52 000	5 000	104 500	161 500

Here the reinsurers' expenses item has been removed and the profit commission included as a deduction. Gross premium to result gives a profit to reinsurers of 11.96%.

It is also possible to work out incurred ratios and combined ratios as below:

PROFIT COMMISSION CALC

			Year 1	Year 2	Year 3	Totals
Income	Gross written premium		400 000	450 000	500 000	1 350 000
	Inward UPR		0	160 000	180 000	
	O/S Losses		0	10 000	40 000	
Income	Commission	30%	-120 000	-135 000	-150 000	
	Expenses	5%	0	0	0	
	Losses paid		-50 000	-260 000	-200 000	
	Losses O/S		-10 000	-40 000	-50 000	
	Outgoing UPR		-160 000	-180 000	-200 000	
	Profit commission	20%	-8 000	0	-15 500	
	Profit / Loss		52 000	5 000	104 500	161 500
					Result	11,96%

Earned premiums equal the written premiums for the year plus the unearned premium reserve brought forward (if any), less the unearned premium reserve carried forward.

Incurred losses are the paid losses for the year, less any outstanding loss reserve brought forward, less the outstanding loss reserve carried forward.

The combined ratio includes costs, in this case the commission and the profit commission. Thus the combined ratio is the result of dividing the incurred losses plus expenses by the earned premiums.

If one wished to make up statistics from accounts rendered on an underwriting year basis, the same processes apply. The important aspect to remember is that statistics on an underwriting year basis will continue to change for a particular underwriting until all risks for that underwriting year have expired and all losses have been finally paid.

If we again take the accounts of the Royal on an underwriting year basis, Mrs. Alena's spread sheets were as follows:

For 2011:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO . - UNDERWRITING YEAR BASIS

VIEW OF 2011 IN 2011 AND FURTHER ACCOUNTING IN 2012

UNDERWRITING YEAR 2011		2011				2011 IN 2012			
		1QTR	2QTR	3QTR	4QTR	1QTR	2QTR	3QTR	4QTR
GROSS WRITTEN PREMIUM		73 538	44 123	53 928	76 453	7 354	2 206	1 079	917
CEDING COMMISSION	35%	-25 738	-15 443	-18 875	-26 759	-2 574	-772	-377	-321
NET PREMIUM		47 800	28 680	35 053	49 694	4 780	1 434	701	596
CLAIMS PAID		-8 825	-9 707	-16 178	-20 591	-5 736	-7 324	-8 677	-9 707
PREMIUM RESERVE RETAINED	40%	-29 415	-17 649	-21 571	-30 581	-2 942	-882	-431	-367
PREMIUM RESERVE RELEASED						29 415	17 649	21 571	30 581
PREMIUM RESERVE WITHHELD BALANCE		-29 415	-47 064	-68 635	-99 216	-72 743	-55 976	-34 837	-4 622
CLAIMS OUTSSTANDING RETAINED					-14 708				-8 825
CLAIMS OUTSSTANDING RELEASED									14 708
INTEREST (CREDIT ON 1/4LY BASIS)	1%	0	74	118	172	248	182	140	87
INTEREST (CREDIT ANNUAL BASIS)	1%								147
BALANCE		9 560	1 397	-2 579	-16 013	25 766	11 058	13 303	27 221

For 2012:

CASE STUDY - PPN TREATY A/CTING - ROYAL INS CO. - UNDERWRITING YEAR BASIS

VIEW OF 2012 IN 2012 **© COPYRIGHT**

UNDERWRITING YEAR 2012			2012			
			1QTR	2QTR	3QTR	4QTR
GROSS WRITTEN PREMIUM		285 247	87 921	62 017	50 741	84 568
CEDING COMMISSION	35%	-99 837	-30 772	-21 706	-17 759	-29 599
NET PREMIUM		185 411	57 149	40 311	32 982	54 970
CLAIMS PAID		-98 183	-15 169	-17 112	-25 982	-39 921
PREMIUM RESERVE RETAINED	40%		-35 168	-24 807	-20 296	-33 827
PREMIUM RESERVE RELEASED						
PREMIUM RESERVE WITHHELD BALANCE		-114 099	-35 168	-59 975	-80 272	-114099
CLAIMS OUTSSTANDING RETAINED		-28 657				-28 657
CLAIMS OUTSSTANDING RELEASED						
INTEREST (CREDIT ON 1/4LY BASIS)	1%		0	88	150	201
INTEREST (CREDIT ANNUAL BASIS)	1%					
BALANCE		-55 528	6 811	-1 520	-13 147	-47 235
		119%				

Once again one can summarise the figures as follows:

CASE STUDY - PROPORTIONAL TREATY ACCOUNTING - ROYAL INS CO . - UNDERWRITING YEAR BASIS

VIEW OF 2011 IN 2011 AND FURTHER ACCOUNTING IN 2012 **© COPYRIGHT**

UNDERWRITING YEAR 2011			2011				2011 IN 2012			
		AT 4Q2012	1QTR	2QTR	3QTR	4QTR	1QTR	2QTR	3QTR	4QTR
GROSS WRITTEN PREMIUM		259 597	73 538	44 123	53 928	76 453	7 354	2 206	1 079	917
CEDING COMMISSION	35%	-90 859	-25 738	-15 443	-18 875	-26 759	-2 574	-772	-377	-321
NET PREMIUM		168 738	47 800	28 680	35 053	49 694	4 780	1 434	701	596
CLAIMS PAID		-86 745	-8 825	-9 707	-16 178	-20 591	-5 736	-7 324	-8 677	-9 707
PREMIUM RESERVE RETAINED	40%		-29 415	-17 649	-21 571	-30 581	-2 942	-882	-431	-367
PREMIUM RESERVE RELEASED							29 415	17 649	21 571	30 581
PREMIUM RESERVE WITHHELD BALANCE		-4 622	-29 415	-47 064	-68 635	-99216	-72 743	-55 976	-34 837	-4 622
CLAIMS OUTSSTANDING RETAINED		-8 825				-14 708				-8 825
CLAIMS OUTSSTANDING RELEASED										14 708
INTEREST (CREDIT ON 1/4LY BASIS)	1%		0	74	118	172	248	182	140	87
INTEREST (CREDIT ANNUAL BASIS)	1%									147
BALANCE		68 546	9 560	1 397	-2 579	-16 013	25 766	11 058	13 303	27 221
		26%								

By totaling the premiums and commissions and paid losses, and taking the premium reserve balance still withheld and the current claims outstanding (column E), one can take a view of the result of the underwriting year 2011 at 4Q12 (E26). The result is looking very good at this stage.

Similarly one can summarise the year 2012:

CASE STUDY - PPN TREATY A/CTING - ROYAL INS CO. - UNDERWRITING YEAR BASIS

VIEW OF 2012 IN 2012

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UNDERWRITING YEAR 2012			2012			
			1QTR	2QTR	3QTR	4QTR
GROSS WRITTEN PREMIUM		285 247	87 921	62 017	50 741	84 568
CEDING COMMISSION	35%	-99 837	-30 772	-21 706	-17 759	-29 599
NET PREMIUM		185 411	57 149	40 311	32 982	54 970
CLAIMS PAID		-98 183	-15 169	-17 112	-25 982	-39 921
PREMIUM RESERVE RETAINED	40%		-35 168	-24 807	-20 296	-33 827
PREMIUM RESERVE RELEASED						
PREMIUM RESERVE WITHHELD BALANCE		-114 099	-35 168	-59 975	-80 272	-114099
CLAIMS OUTSSTANDING RETAINED		-28 657				-28 657
CLAIMS OUTSSTANDING RELEASED						
INTEREST (CREDIT ON 1/4LY BASIS)	1%		0	88	150	201
INTEREST (CREDIT ANNUAL BASIS)	1%					
BALANCE		-55 528	6 811	-1 520	-13 147	-47 235
		119%				

Currently the year 2012 balance does not look good (E26), but the result is distorted by the premium withheld balance of 114,099 (E18). The loss ratio at 34% (Paid losses/GWP) is looking good and if the good loss ratio continues as the premium reserve unwinds, then the final balance and result should be favourable and similar to 2011.

It should always be remembered that figures can be manipulated to produce a variety of statistics to support one or other argument, especially at renewal. What is important is to understand the impact of certain assumptions, and to be able to review alternatives.

8. CONCLUSION

This course has been designed to expand the knowledge base built in the earlier courses and as noted at the beginning of this course “money makes the world go round”.

In the financial world everything is measured by the money generated … or lost.

Accounting essentially converts events, actions and decisions into money, in a relatively standardised format, so that performance in monetary terms can be monitored, controlled and compared.

Thus being able to convert a good sound technical knowledge of the reinsurance business into money is an essential part of the process.

Equally having a knowledge of all the different elements that make up the reinsurance business is vital to appreciate the finer points of negotiation, make good deals for your company and also to be able to identify errors which become more obvious with knowledge and experience.

Multiple choice questions

1. Which of the following statements is correct ?

a. Assets plus liabilities equal surplus.
b. Surplus plus assets equal liabilities.
c. Liabilities minus surplus equal assets.
d. Assets minus liabilities equal surplus.

2. Which of the following statements is correct ?

a. The profit and loss account reflects the long term viability of the company.
b. The balance sheet just summarises the profit and loss account.
c. The balance sheet reflects the long term viability of the company.
d. The profit and loss account just summarises the balance sheet.

3. Which of the following statements is correct ?

a. From the ceding company's perspective reinsurance commission is a debit.
b. From the ceding company's perspective tax on interest on reserves retained is a credit.
c. From the reinsurers' perspective premium reserve retained is a credit.
d. From the reinsurers' perspective incoming outstanding loss reserve is a debit.

4. Which of the following statements is correct:

a. Earned premiums equal written premiums plus outgoing loss reserves minus incoming loss reserves if any.
b. Earned premiums equal written premiums plus incoming premium portfolio if any minus outgoing premium portfolio.
c. Earned premiums equal written premiums minus incoming premium portfolio if any plus outgoing premium portfolio if any.
d. Earned premiums equal written premiums plus incoming loss reserves if any minus out going loss reserves.

5. Which of the following statements is correct:

a. Premium reserves only occur in clean-cut treaties.
b. Premium reserves only appear in treaties accounted on an underwriting year basis.
c. Premium portfolios only occur in clean-cut treaties.
d. Premium portfolios only appear in treaties accounted on an underwriting year basis.

6. Which of the following statements is correct:

a. Reinstatement premiums only appear in proportional treaties.
b. Reinstatement premiums only appear in stop loss treaties.
c. Reinstatement premiums only appear in per risk excess of loss treaties.
d. Reinstatement premiums only appear in per risk and catastrophe non-proportional treaties.

7. Which of the following statements is correct ?

a. Excess of loss treaty accounts are generally rendered on a quarterly or half-yearly basis.
b. If there is an unexpected large loss under a per risk cover, the cedant can request a cash loss call from reinsurers, rather than waiting until the next quarterly or half-yearly account is due.
c. Sanctions only apply to proportional treaties.
d. Minimum and deposit premiums are generally payable by a ceding company before subject premiums have been received from policyholders.

8. Which of the following statements is correct ?

a. A cash loss is a financial item in a proportional account.
b. An outstanding loss reserve withheld is a financial item in a proportional account.
c. A loss recovery is a financial item in a non-proportional account.
d. An outstanding loss advice is a financial item in a non-proportional account.

9. Which of the following statements is correct:

a. Generally a profit commission applies in a proportional treaty with a flat commission.
b. Generally a flat commission applies in a non-proportional treaty with an overriding commission.
c. Generally a sliding scale commission applies in a non-proportional treaty where there is no profit commission.
d. Generally a profit commission applies in a proportional treaty with a sliding scale commission.

10. Which of the following statements is correct:

a. Reinsurance accounting essentially converts the experience of a reinsurance transaction into money.
b. Proportional treaties generally result in much larger premium payments to reinsurers and can be a good source of soft capital.
c. Accounting for proportional treaties and non-proportional treaties is quite different as proportional treaties concern risks, while non-proportional treaties only concern losses.
d. Clean-cut treaties are much more cost efficient than treaties accounted for on an underwriting year basis.

APPENDIX A

Test answers

The following statements are correct:

1.	d
2.	c
3.	b
4.	b
5.	c
6.	d
7.	d
8.	b
9.	a
10.	a, b, c & d

APPENDIX B

SPECIMEN STOP LOSS SLIP

HAIL STOP LOSS

REINSURED	Elementary Insurance Company
PERIOD	Continuous contract with effect from 1st April 2016 45 days' notice of cancellation prior to any anniversary date
TYPE	Aggregate Excess of Loss
CLASS	Crop Hail Insurance
TERRITORIAL SCOPE	Southern Africa
LIMIT	In respect of each annual Crop Hail Season:- 15% or $1.5m in all excess of an amount equal to a loss ratio of 75% Gross Net Earned Premium Income or $3m whichever is the greater.
PREMIUM	Annual minimum and deposit $228,800 payable at 1st April each year Adjustable at 2.2% Gross Net Earned Premium
DEDUCTIONS	10%
GENERAL CONDITIONS	Ultimate net loss. Net retained lines. War and Civil War exclusion. Nuclear Energy and Atomic Pools exclusion. Excess of Loss reinsurance exclusion.
WORDING	As agreed leading underwriter Loss record attached hereto

Example Reinsurance Agreement

Wording in RED requires amendment depending on specific individual terms agreed

Proportional Reinsurance Agreement
Fire and Engineering Surplus

CONTRACTUAL DETAILS

SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

made and entered into between

ABC INSURANCE COMPANY LIMITED, Lagos, Nigeria,

(hereinafter called the "Reinsured")
of the one part

and

AFRICAN REINSURANCE CORPORATION, Lagos, Nigeria,

and/or its Subsidiaries and/or Regional Offices,
(hereinafter called the "Reinsurer")
of the one part

This Slip Reinsurance Agreement consisting of the Contractual Details and Contractual Wording together with all Appendices, Annexes and Addenda pertaining thereto, shall be read together as one Contract and is issued in two originals to be signed by both parties in executing this Agreement.

A new Slip will be issued on each anniversary date in replacement of the Slip of the previous Treaty underwriting year. However, no new Slip will be issued in case of Termination of the Agreement in accordance with Article 19 of the Contractual Wording.

It is understood and agreed by the parties to this Slip Reinsurance Agreement that wherever the word "Nil" appears for any of the serially numbered section of this Slip, it will be construed as being of no effect and/or will not operate for the Agreement.

For the purpose of this Agreement, the words "Agreement", "Contract", Reinsurance" and "Treaty" shall have the same meaning wherever they may appear and may be interchangeable.

1. Reinsured:

ABC Insurance Company Limited, Lagos, Nigeria.
10th Floor
444 Presidential Road
Lagos
Nigeria
E-mail:

2. Period:

Continuous contract commencing on 1st January 20xx subject to three (3) months' notice of cancellation prior to 31st December in any year.

However, it is understood that the provisional notice of cancellation is automatically tendered at 30th September of each year by both the Reinsured and the Reinsurer hereon, unless otherwise advised by either party to this Agreement. No formal document will be issued by either party in this connection.

Signing hereon is in respect of the period effective from 1st January 20xx to 31st December 20xx, both days inclusive and Local Standard Time at the place of loss.

3. Type:

Fire and Engineering Surplus Reinsurance Agreement.

4. Class of Business:

All insurances whether direct or by way of coinsurance and facultative reinsurances and/or compulsory legal cessions to the Reinsured, accepted and underwritten and/or renewed by the Reinsured in its Fire and Engineering Department and designated by the Reinsured as Fire and Engineering business covering:

Fire

a) Material Damage and Business Interruption following the perils of:
Fire, Bush Fire, Lightning or Thunderbolt, Explosion, Non-Political Riot, Strike, Civil Commotion, and Malicious Damage, Lock-out Workers, Aircraft and aerial devices or articles dropped therefrom, Burglary and/or theft, Impact by animals trees, aerial, satellite dishes or vehicles, Bursting or Overflowing of Water Tanks or Pipes, Cyclone, Hurricane, Tornado, Typhoon, Earthquake, Volcanic Eruption, Subterranean Fire, Flood, Tidal Wave and Tsunami, Collapse, Subsidence, Ground Heave, and Landslide;
and including the following interests:
b) Domestic Package policies excluding motor policies;
c) Industrial All Risks and Assets All Risks policies excluding all
Contractors' All Risks, Erection All Risks, Machinery Loss of Profits and Deterioration of Stock exposures but limited to 5% cover for Machinery Breakdown and Electronic Equipment.

Engineering

a) Boiler and Pressure Vessel (BPV);
b) Machinery Breakdown;
c) Contractors' All Risks (CAR);
d) Erections All Risks (EAR);
e) Contractors' Plant, Machinery and Equipment (CPM);
f) Electronic Equipment including associated Increased Cost of Working (ICOW);
g) Deterioration of Stock following Machinery Breakdown (DOS);
h) Consequential Loss (Loss of Profits/Loss of revenue) following Boiler and Pressure Vessel Explosion and Machinery Breakdown;
i) Third Party Liability written in conjunction with Contractors' All Risks and Erection All Risks (TPL).

5. Territorial Scope:

Risk situated in Nigeria and Nigerian interest abroad and incidental Worldwide subject to prior referral to the Leading Reinsurer, but excluding risks situated in USA and Canada.

Incidental shall mean anywhere in Africa for 100%, but for the rest of the World not exceeding 20% of the Treaty Maximum Reinsurance Cession defined under section 6. Treaty Detail hereafter.

6. Treaty Detail:

Fire

Reinsured's Retention: One Gross Line maximum of N10,000,000 any one risk Material Damage and Business Interruption combined on sum insured basis or Probable Maximum Loss (PML) for best class risk, scaled down according to the Table of Retentions as per Appendix No. 1 attaching to and forming part of this Agreement.

First Surplus Treaty Cession Limit: Fourteen (14) Gross Lines, subject to a Maximum Cession Limit of N140,000,000 any one risk Material Damage and Business Interruption combined on sum insured basis or Probable Maximum Loss (PML) for best class risk, scaled down according to the Table of Retentions as per Appendix No. 1 attaching to and forming part of this Agreement.

Engineering

Reinsured's Retention: One Gross Line maximum limit of N100,000,000 on sum insured basis or Probable Maximum Loss (PML) for the best risk, scaled down according to the Table of Retentions as per Appendix No.1 attaching to and forming part of this Agreement.

Third Party Liability Section:
Maximum cession of N 10,000,000 any one loss occurrence. To be reinsured in conjunction with and in the same proportion as the Material Damage Section(Contractors' All Risks and Erection All Risks)

The Gross Retention on the Third Party Liability Section of Contractors' All Risks and Erection All Risks insurances shall bear the same proportion to the original Third Party Liability limit as the Gross Retention in the Material Damage section bears to the whole Sum Insured for Material Damage

First Surplus Treaty Cession Limit: Ten (10) Gross Lines, subject to a Maximum Cession Limit of N1,000,000,000 on sum insured basis or Probable Maximum Loss (PML) for the best risk, scaled down according to the Table of Retentions as per Appendix No.1 attaching to and forming part of this Agreement.

Third Party Liability Section:
Maximum cession of N 30,000,000 any one loss occurrence. To be reinsured in conjunction with and in the same proportion as the Material Damage Section(Contractors' All Risks and Erection All Risks)

The Gross Retention on the Third Party Liability Section of Contractors' All Risks and Erection All Risks insurances shall bear the same proportion to the original Third Party Liability limit as the Gross Retention in the Material Damage section bears to the whole Sum Insured for Material Damage

In addition the following special terms shall apply to this Agreement:

1. It is understood and agreed that any amount surplus to the combined maximum retention and treaty limits shall be reinsured only on a proportional basis.

2. Event Limit: NGN 500,000,000
any one occurrence and in the annual aggregate for Natural Perils exposure, subject to the terms and conditions of the Event Limit Clause as per Appendix no.3, attaching to and forming part of this Agreement.

3. The Minimum Maximum Probable Loss is 50% unless Leading Reinsurer's agreement is obtained for a lesser factor.
In respect of Material Damage and Business Interruption the Probable Maximum Loss may be expressed separately as a monetary and/or percentage figure, and in this case the combined total any one Risk shall not be less than the above-stated Probable Maximum Loss factor.

4. Coinsurance acceptances by the Reinsured are limited to 50% of one gross line specified herein, always subject to the Table of Retentions.

5. Facultative Reinsurance acceptances by the Reinsured are limited to 50% of one gross line specified herein, always subject to the Table of Retentions.

7. Exclusions:

This Agreement will not cover, among others, certain types of insurances and reinsurances, locations, risks and perils, and properties, in respect of material damage and consequential loss resulting therefrom, specified hereafter

Exclusion as per Appendix no. 5:

1. War, Civil War, Political Risk and Terrorism Exclusion Clause.
2. Nuclear Energy Risks Exclusion Clause (Reinsurance) (1994) (Worldwide excluding U.S.A. and Canada) - NMA 1975A.
3. Nuclear Causes Exclusion Clause.
4. Radioactive Exclusion Cause (Reinsurance).
5. Terrorism Exclusion Clause for Contamination and Explosives.
6. Computer Loss General Exclusion Clause.
7. Electronic Data Recognition Clause EDRC (B).
8. Computer Virus and on-line risks "Clarification Agreement".
9. Institute Chemical, Biological, Bio-Chemical, Electromagnetic Weapons and Cyber Attack Exclusion Clause.
10. Transmission and Distribution Lines Exclusion Clause.
11. Pollution and Contamination Exclusion Clause.
12. Asbestos Exclusion Clause.
13. Supplementary Fire and Engineering Exclusion List as per Appendix no. 6 attached.

Amendments to exclusions shall be advised in writing to and be expressly agreed by the Leading Reinsurer only.

Special Acceptances of risks excluded from the scope of this Agreement shall be agreed by the Leading Reinsurer. Such Special Acceptances will not be documented in this Agreement wording.

However, any previously agreed Special Acceptances will be renegotiated prior to each individual policy renewal date.

8. Rates:

Original Gross Rate (OGR).

9. Commission:

Commissions shall be calculated on the premium ceded to the Agreement net of any taxes whenever applicable.

a) Flat: 30% for fire section.
25% for Engineering section.

b) Sliding Scale Commission: As specified in Appendix No 4.
Separate accounts for Fire and Engineering sections.

10. Over-riding Commission:

Nil

11. Profit Commission:

Separately for Fire and Engineering
Rate:....%
Reinsurer's Management Expenses: .....%
Losses carried forward: ... years
The statement shall be submitted with the fourth quarter account.

Engineering section to be rendered on underwriting year basis.
Full details of Profit Commission calculation: As specified in Article 5 of the Contractual Wording.

12. Loss Participation:

Nil

13. Taxes and Deductions from Reinsurance Premium:

Nil

14. Reserves Deposits:

(a) Premium Reserve: Nil (or as per legal requirement)
(b) Loss Reserve: Nil (or as per legal requirement)
Interest on reserves: Nil or as agreed

15. Portfolio Assumption and Withdrawal:

Fire
a) Premium for both assumption and withdrawal: calculated on the basis of "Eights system" on the premium net of actual commission (excluding premiums for monthly business) for the four quarters preceding the date
at which this Agreement takes effect (Premium Portfolio Entry) or
at which this Agreement terminates (Premium Portfolio Withdrawal).

"Eighths" system calculated as follows for unearned premium:-
12,50% of Written Premium ceded in the First Quarter plus
37,50% of Written Premium ceded in the Second Quarter plus
62,50% of Written Premium ceded in the Third Quarter plus
87,50% of Written Premium ceded in the Fourth Quarter

(b) Loss for both assumption and withdrawal: Calculated at 90% of all losses outstanding at the date of commencement of this Agreement (Loss Portfolio Entry) or at the date of termination of this Agreement (Loss Portfolio Withdrawal) .

Nil portfolio at inception of Agreement but clean-cut every year with incoming and outgoing premium and loss portfolios accounts to be presented simultaneously with the account(s) for the fourth quarter of the preceding year.

Engineering
Nil. Risks ceded to any Underwriting year shall run off to natural expiry.

16. Notification of Claims:

All individual claims amounting to NGN 15,000,000 and above for 100% to the Treaty to be advised to the Leading Reinsurer not later than 14 days after a loss occurrence with full copy of the policies in force and all surveyors' and assessors' reports to be provided to the Leading Reinsurer.

17. Cash Loss Limit:

NGN 15,000,000 and above for 100% to the Treaty, subject to deduction of balances outstanding as per the Set-off Clause. Full policy copy and all assessors' reports to be provided to the Leading Reinsurer.
Cash loss request to provide start and end date of policies.

18. Accounts rendering:

Quarterly accounts shall be submitted separately per class of business and as soon as possible but not later than 45/60 days (six/eight weeks) after the close of each quarter.

Engineering section to be rendered by underwriting year.

Settlement of any balance by the Reinsured to the Reinsurer shall accompany the quarterly account.

Settlement of any balance to the Reinsured by the Reinsurer shall follow within 14/30 days of the receipt of the quarterly account by the Reinsurer.

Any inadvertent error or omission shall be corrected in the subsequent quarterly account unless such error or omission has a major effect on the balance to be remitted, in which case, correction thereof shall be made immediately by a supplementary account.

Losses paid and outstanding will be advised with the quarterly accounts in their years of occurrence.

Balances to be settled in Nigerian Naira (NGN).

19. Interest on Overdue Balances:

Interest at 110% of market prime lending rate on balances due from the due date to the date of payment.

20. Bordereaux and Reports:

A list of outstanding losses in their years of occurrence shall be submitted with each quarterly account, separately for each class of business.

In addition, the Reinsured shall submit Natural Perils Accumulation reports as per CRESTA form by zones specified or any other agreed form, together with the quarterly accounts.

21. Currency:

Contract currency: Nigerian Naira (NGN).
Settlement currency: US Dollar or any other currency equivalent at the rate of exchange ruling as at the Due Date.

22. General Conditions:

All terms, conditions and clauses applicable to this Agreement, including those listed below, are more fully defined in the Contractual Wording:

1. Share Ceded
2. Period of Application
3. Reinsurer's Liability
4. Follow the Fortunes
5. Class of Business
6. Territorial Scope
7. Retention and Limit
8. One Risk
9. Prior Facultative Reinsurance
10. Protection of Reinsured's Retention
11. Self-insurance
12. Exclusions
13. Records of Cessions and Bordereaux
14. Premium and Commission
15. Profit Commission
16. Loss Participation
17. Taxes and Deductions
18. Premium Reserve Deposit
19. Outstanding Loss Reserve Deposit
20. Portfolio Premium and Loss Portfolio Transfer
21. Claims Reporting and Settlement

22. Accounts
23. Currency Conversion
24. Set-Off
25. Change of Underwriting Practice
26. Incorrect or Incomplete Information
27. Inadvertent Delay, Errors and Omissions
28. Inspection of Records
29. Commencement and Termination
30. Special Cancellation
31. Extended Expiry
32. Alterations
33. Intermediary
34. Change in Law
35. Interpretation
36. Choice of Law and Jurisdiction
37. Arbitration
38. Sanctions Limitation and Exclusion
39. Several Liability Notice – LSW 1001 (Reinsurance)

23. Special Conditions:

None other than may exist in this Agreement.

24. Warranties:

None other than may exist in this Agreement.

25. Intermediary:

The Intermediary for this Agreement is:
XYZ Reinsurance Brokers Limited,
xxx,
xxx,
xxx, Nigeria.

26. Brokerage:

2.5%

27. Choice of Law and Jurisdiction:

It is agreed that this Reinsurance Agreement (including arbitration tribunals) shall be governed by the Laws of Nigeria and the Courts of Law in Nigeria will have exclusive jurisdictions in all matters relating to this Agreement.
As more fully defined within the Contractual Wording.

However no indemnity under this Agreement shall apply to compensation for damages in respect of judgments delivered or obtained by a court of competent jurisdiction within the U.S.A or Canada or any of their territories.

28. Seat of Arbitration:

The Seat of arbitration will be Lagos, Nigeria.

Appointor:
The Secretary General for the time being of the Court of Arbitration of the International Chamber of Commerce.

29. Wording:

Full Contractual Wording is incorporated.
This Slip Reinsurance Agreement details the Agreement terms entered into by the Reinsured and the Reinsurer and constitutes the full Reinsurance Agreement.

30. Leading Reinsurer:

African Reinsurance Corporation, the "Reinsurer".

31. Acceptance:

African Reinsurance Corporation, signing hereon for: xx% of 100%.

Information:

a) Estimated premium income for the Treaty:

	Fire	Engineering
Revised 20xx:	N 500,000,000	N 500,000,000
20xx:	N 750,000,00	N 750,000,000

Treaty premium to be submitted split by Class of business

b) Reinsurance presentation including statistics, profiles (as at 30th September) and underwriting procedures have been seen and noted by the Reinsurer.

CONTRACTUAL WORDING

ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING QUOTA SHARE AND SURPLUS SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

Made and entered into between

ABC INSURANCE COMPANY LIMITED, Lagos, Nigeria,

(hereinafter called the “Reinsured”)
of the one part

and

AFRICAN REINSURANCE CORPORATION, Lagos, Nigeria,

and/or its Subsidiaries and/or Regional Offices,
(hereinafter called the “Reinsurer”)
of the other part

WHEREBY IT IS AGREED between the parties as follows:

Article 1: Share Ceded, Territorial Scope and Retention Clauses

1.1 Share Ceded
The Reinsured shall cede and the Reinsurer agrees to accept by way of Quota Share and Surplus reinsurance the proportion stated in the Contractual Details (hereinafter called the “Reinsurer’s participation”) of the business specified in the Contractual Details but not exceeding the treaty limits stipulated therein.

1.2 Period of Application
This Agreement applies to policies issued or renewed in respect of insurances and reinsurances during the period specified in the Contractual Details.

1.3 Reinsurer’s Liability
The liability of the Reinsurer shall commence immediately the retention of the Reinsured has been exceeded and run concurrently and obligatorily with that of the Reinsured.

1.4 Follow the Fortunes
The Reinsurer shall be subject to the same terms and conditions as the original policies and shall follow, subject to the terms of this Agreement, the underwriting fortunes of the Reinsured in respect of all business ceded hereunder.

1.5 Class of Business Covered
The Type and Class of Business are specified in the Contractual Details.

1.6 Territorial Scope
The Reinsurer shall only cover those risks accepted by the Reinsured which are situated within the Territorial Scope as defined in the Contractual Details.

1.7 Retention and Limit
The maximum retention by the Reinsured for its own account and the limit of this Agreement any one risk are specified in the Contractual Details. Notwithstanding the foregoing, the Reinsured may cede any compulsory legal cession, in which event the share hereunder shall be based on the amounts remaining after taking such reinsurance into account.
The amounts of co-insurance and inwards facultative reinsurance ceded to this Agreement are specified in the Contractual Details.

1.8 One Risk

The Reinsured shall be the sole judge as to what constitutes One Risk and/or accumulation of risks.

1.9 Prior Facultative Reinsurance

The Reinsured may reduce the amount to be ceded in respect of any risk by effecting individual proportional facultative reinsurances when in the Reinsured's opinion this is in the interest of both parties, but the reinsured shall not effect facultative reinsurance protection solely for the protection of the business retained for its own account.

1.10 Protection of Reinsured's Retention

The Reinsured reserves the right to effect, at its own discretion, excess of loss protection for its net retention and such excess of loss protection shall not be considered as invalidating any of the provisions of this Agreement.

1.11 Self-insurance

A policy and/or contract granted by the Reinsured in which the Reinsured either solely or jointly with another party or parties is named as the Insured and/or Reinsured, shall be deemed to be a policy and/or contract falling within the scope of this Agreement, notwithstanding that there may be no legal liability under such policy and/or contract by reason of the fact that the Reinsured is named as an Insured and/or Reinsured.

Article 2: Exclusions

The Reinsurer shall not be liable for any losses caused by or arising from the exclusions detailed in section 7 of the Contractual Details.

Special Acceptances of risks excluded from the scope of this Agreement shall be agreed by the Leading Reinsurer. Such Special Acceptances will not be documented in this Agreement wording.

However, any previously agreed Special Acceptances will be renegotiated with the Leading Reinsurer annually.

Article 3: Record of Cessions and Bordereaux Clause

3.1 Record of Cessions

The Reinsured shall maintain a record of all cessions hereunder and of all renewals and alterations thereto and these shall be advised as stated in the Contractual Details to the Reinsurer on a bordereau form.

3.2 Bordereau

Bordereaux shall serve only to provide information to the Reinsurer in respect of risks ceded under this Agreement. Risks outside the scope of this Agreement shall not be covered by this Agreement by virtue of an entry on a bordereau form.

Article 4: Premium and Commission Clauses

4.1 Premium

The Reinsured shall pay to the Reinsurer its proportion of the original premiums (less only returns, cancellations and premiums paid for prior reinsurances which inure to the benefit of this Agreement) which the Reinsured itself receives for the original insurances. The Reinsurer shall be entitled to its share of premium for the liability assumed on insured risks even if the Reinsured has not received the premium owing to it.

4.2 Payment of Premium

The Reinsurer's obligations to pay claims are contingent on and subject to the payment of the due premium by the Reinsured and until such premium is received, the Reinsurer shall have no obligations whatsoever to pay any claims, provided that, any set-off applied in terms of this Agreement shall constitute compliance with this provision.

4.3 Commission

4.3.1 Flat Commission

The Reinsurer shall allow commission on the premiums ceded in the accounts for this Agreement at the rate specified in the Contractual Details but unless otherwise agreed and specified in the Contractual Details no other deduction shall be made.

4.3.2 Sliding Scale Commission
If applicable, the Sliding Scale Commission shall be calculated as specified in the Contractual Details.

4.3.3 Overriding Commission
If applicable, the Reinsurer shall pay to the Reinsured an overriding commission on the premiums ceded under this Agreement at the rate specified in the Contractual Details.

Article 5: Profit Commission Clause (if applicable)

5.1 Profit Commissions Formula
The Reinsurer shall pay to the Reinsured a profit commission as detailed in the Contractual Details calculated on the profit arising from all business ceded under this Agreement and included in the accounts for each annual period of this Agreement in accordance with the following formula: -

Income (Credit):
1. Release of preceding years' Unearned Premium Reserve. On Entry into the Premium Portfolio this item shall be replaced by the corresponding Incoming Premium Portfolio from the previous accounting year.

2. Release of the Outstanding Loss Reserve as at the end of the preceding year. On Entry into the Loss Portfolio this item shall be replaced by the corresponding Incoming Loss Portfolio from the previous accounting year.

3. Premium included in the accounts for the current year.

Items 1 and 2 will not apply to the first Profit Commission Statement

Outgo (Debit):
1. Commission included in the accounts for the current year.

2. Any other agreed deductions as specified in the Contractual Details.

3. Paid Losses and Loss Expenses included in the accounts for the current year including cash losses paid by the Reinsurer during the current year and not brought into account.

4. Unearned Premium Reserve calculated on the Premium Income for the current year at the rate specified in the Contractual Details. On Withdrawal of Premium Portfolio this item shall be replaced by the corresponding Outgoing Premium Portfolio as at the end of the current year.

5. The Outstanding Loss Reserve as at the end of the current year. On Withdrawal of the Loss Portfolio this item shall be replaced by the corresponding Outgoing Loss Portfolio as at the end of the current year.

6. Reinsurer's Management Expenses calculated on the Premium Income for the current year at the rate specified in the Contractual Details.

7. Deficit (if any) brought forward from the previous year's statement.

5.2 Inuring Recoveries
Any Premium and Loss recoveries under reinsurance which inure to the benefit of this Agreement shall be taken into consideration.

5.3 Loss Carried Forward
Any loss resulting from each year's profit commission calculated shall be carried forward for the number of years stated in the Contractual Details. Within this period any loss shall be used to eliminate and/or reduce any subsequent year's profit(s) in the order in which they arise.

5.4 Profit Definition
Any excess of Income over Outgo shall be deemed to be the profit for the annual period.

5.5 Profit Commission Statement
The Reinsured shall render to the Reinsurer a statement for each annual period in accordance with the above formula and any profit commission due shall be included in the account as stated in the Contractual Details.

5.6 Profit Commission on Termination of Agreement
On termination of this Agreement no Profit Commission Statement shall be rendered until all liability of the Reinsurer has ceased. All entries appearing in accounts rendered to the Reinsurer after the date of termination together with the appropriate entries relating to the last period this Agreement was in force shall be included in the final statement.

Either party shall have the right at any time to request the re-calculation of the Profit or Deficit for any year should it be found that by under or over payment for outstanding claims, the Profit Commission paid was inaccurate.

Article 6: Loss Participation
If applicable, the Reinsured's Loss Participation share shall be calculated as specified in the Contractual Details.

Article 7: Taxes and Deduction Clause

7.1 Taxes and Deductions
The financial transactions arising out of this Agreement are subject to tax implications as specified in the Contractual Details.

Article 8: Premium Reserve Deposit Clause

8.1 Premium Reserve Deposit Retained and Released
If applicable, the Reinsured shall retain from the Reinsurer a Premium Reserve Deposit in cash calculated at the percentage stated in the Contractual Details on the premium ceded to the Reinsurer in the accounts rendered hereunder. Such retained Deposit shall be released to the Reinsurer in the corresponding account of the following year.

Notwithstanding the above the Reinsurer shall have the right to set up the deposit in cash with the Reinsurer or in the form of securities.
In the case of a securities deposit, a separate agreement shall be made between the parties.

8.2 Interest on Deposit
The Reinsured shall credit the Reinsurer in the final account for the year with the interest accrued on the cash Deposit retained in each annual period.

8.3 Interest Rate
The annual percentage rate of interest payable is as stated in the Contractual Details.

8.4 Alteration in Interest Rate
Alternations in the rate of interest payable at the renewal of this Agreement shall be applied to all cash Deposits in accounts rendered from the commencement of that year regardless of their underwriting year designation.

8.5 Deposit Held in Trust
Any amounts held by the Reinsured in accordance with the provisions of this clause remain the property of the Reinsurer so far as the applicable Law permits and are held by the Reinsured as trustee for the Reinsurer and may only be utilised by the Reinsured in the event and up to the amount of the Reinsurer's failure to discharge its liability under this Agreement.

8.6 Set-off of Deposit
The Reinsurer may at its discretion direct that any such amounts or any portion thereof which should be released to the Reinsurer in accordance with the provisions of this clause or an amount equivalent to the value thereof shall instead be set-off against any amounts owed by the Reinsurer to the Reinsured under this or any other agreements which have been or may hereafter be entered into between parties, it being understood that the Reinsurer shall relinquish to the Reinsured all its rights in the said amount to the extent of any such set-off.

Article 9: Outstanding Loss Reserve Deposit Clause

9.1 Loss Reserve Deposit Retained
The Reinsured shall retain from the Reinsurer an Outstanding Loss Reserve Deposit in cash equal to the Reinsurer's share of all claims hereunder notified by the Reinsured and agreed by the Reinsurer and not paid as at the end of each annual period of this Agreement. The Deposit retained shall be released and a new deposit set up annually in the final account for each annual period.

Notwithstanding the above the Reinsurer shall have the right to set up the deposit in cash with the Reinsurer or in the form of securities.
In the case of a securities deposit, a separate agreement shall be made between the parties.

9.2 Loss Reserve Deposit Release
If on termination of this Agreement the Reinsurer remains liable for settlement of its share of all outstanding claims then in each account rendered thereafter in accordance with the provisions hereunder the Loss Reserve Deposit held by the Reinsured shall be released and a new deposit set up.

9.3 Interest on Deposit
The Reinsured shall credit the Reinsurer in the accounts rendered hereunder with interest at the annual percentage rate stated in the Contractual Details on the amount of Outstanding Loss Reserve Deposit retained in cash at any time.

9.4 Alteration in Interest Rate
Alternations in the rate of interest payable at the renewal of this Agreement shall be applied to all cash Deposits in accounts rendered from the commencement of that year regardless of their underwriting year designation.

9.5 Deposit Held in Trust
Any amounts held by the Reinsured in accordance with the provisions of this clause remain the property of the Reinsurer so far as the applicable Law permits and are held by the Reinsured as trustee for the Reinsurer and may only be utilised by the Reinsured in the event and up to the amount of the Reinsurer's failure to discharge its liability under this Agreement or as stipulated in paragraph 10.6 hereof.

9.6 Deposit Retained and Cash Loss
In the event of the Reinsurer being requested to pay a cash loss in respect of a claim for which a loss reserve deposit has been retained the Reinsurer has the right to request settlement of the claim from the Outstanding Loss Reserve Deposit.

9.7 Set-off of Deposit
The Reinsurer may at its discretion direct that any such amount or any portion thereof which should be released to the Reinsurer in accordance with the provisions of this clause or an amount equivalent to the value thereof shall instead be set-off against any amounts owed by the Reinsurer to the Reinsured under this or any other agreements which have been or may hereafter be entered into between the parties, it being understood that the Reinsurer shall relinquish to the Reinsured all its rights in the said amount to the extent of any such set-off.

Article 10: Portfolio Premium and Loss Portfolio Transfer Clause

10.1 Reinsurer's Liability of Risks in Force and Losses Outstanding
The Reinsurer shall assume liability for its share of all risks in force and all losses outstanding at the date of commencement of this Agreement and in consideration thereof the Reinsured shall credit the Reinsurer with:

(i) a portfolio premium assumption calculated on the total of the Reinsurer's proportion of the premium included in the accounts for the twelve months prior to the commencement of this Agreement,

and

(ii) a portfolio loss assumption calculated on the Reinsured's estimate of the losses outstanding at the date of commencement of this Agreement.

10.2 Reinsured's Option on Portfolio at Termination

On termination of this Agreement the Reinsured shall have the option to cancel the Reinsurer's liability under this Agreement in respect of its share of unexpired risks and/or losses outstanding at the date of termination by debiting the Reinsurer with: -

(i) a portfolio premium withdrawal calculated on the Reinsurer's proportion of the premiums included in the accounts for the last twelve months (excluding premiums for monthly business),

and

(ii) a portfolio loss withdrawals calculated on the Reinsured's estimate of the losses outstanding at the date of termination.

Cessions hereunder not subject to Portfolio Considerations (if any) will run-off to natural expiry.

10.3 Portfolio Percentage Basis

At the close of each year during which this Agreement remains in force the Reinsured shall have the option to transfer the liability of the Reinsurer in respect of the unexpired risks and/or losses outstanding at that date where the Reinsurer's participation has altered in this Agreement for the following year. Such transfer shall only relate to the change in sum of its decreased proportion. The Reinsured shall also credit the Reinsurer with a portfolio assumption for the sum of its increased proportion. The basis of the calculation of the portfolio transfer is as detailed in 10.1 and 10.2 above applicable to a share increase or decrease respectively.

The percentage or basis for the calculation of portfolios mentioned in 10.1 and 10.2 shall be as stated in the Contractual Details.

10.4 Portfolio and Disputed Losses

The Reinsured shall have the option to exclude from such transfer any loss or losses which are or may be the subject of dispute or for which the Reinsured is unable to make an acceptable estimate of the liability of the Reinsurer. Such loss or losses shall remain the liability of the Reinsurer(s) participating in the cession(s) and the Reinsurer(s) shall be kept fully informed of all developments pertaining thereto.

10.5 Portfolio Notification by Reinsured

Not later than the date of commencement of a new year or prior to the date of termination of this Agreement the Reinsured must advise the Reinsurer of its intention if portfolio premium and/or loss is to be assumed or withdrawn in respect of changes in the Reinsurer's share or on termination. The Reinsured cannot effect portfolio loss withdrawal alone without the express written agreement of the Reinsurer.

10.6 Premium Reserve Deposit Procedure

If this Agreement provides for the retention of Premium Reserve Deposits the following procedure shall apply: -

(i) At commencement of this Agreement the Deposit retained shall be equal to the net portfolio premium assumption which shall be released as provided in the Contractual Details.

(ii) On termination of this Agreement the total Deposit retained shall be released on withdrawal of portfolio premium.

(iii) For a portfolio premium assumption relating to an increase in share the Deposit retained shall be revalued to the new participation and released in the normal manner. Alternatively, the net portfolio premium assumption may be retained to be released as provided in the Contractual Details.

(iv) For a portfolio premium withdrawal relating to a decrease in share the Deposit retained shall be revalued to the new participation with the proportionate release of Deposit.

Interest at the agreed rate for Deposits as stated in the Contractual Details shall be payable thereon.

10.7 Portfolio Accounting

All the accounting transactions referred to above shall be effected at the same time with the sums relating to the portfolio withdrawal included in the final account of each year. The sums relating to the portfolio assumption shall be included in a preliminary account for the following year which shall be issued simultaneously with the aforementioned account.

10.8 Portfolio Items and Loss Ratio or Profit Commission

The portfolio items shall be included in any loss ratio or profit commission calculations that may be provided for under this Agreement and reserves for unearned premiums and outstanding losses which form part of these calculations shall be revalued to take account of portfolio withdrawals at the close of the year, portfolio assumptions having been credited in a preliminary account at the close of that year. For the computation of a loss ratio the portfolio premium shall be included in the Earned Premium and the portfolio loss included in the Incurred Loss.

Article 11: Claims Reporting and Settlement Clause

11.1 Notification of Claims

The Reinsured shall without delay, advise the Reinsurer of any circumstances which would result in a claim greater than the amount specified in the Contractual Details and thereafter keep the Reinsurer duly informed of any developments regarding the claim.

11.2 Claims Settlement

All loss payments made by the Reinsured within the conditions of the business covered hereunder and falling within the scope of this Agreement shall be binding on the Reinsurer. The Reinsurer shall be liable for its proportion of such loss payments in respect of any risks ceded hereto less its proportion of any recoveries applicable thereto made by the Reinsured whether as salvage or otherwise. All legal costs and professional fees and expenses (excluding salaries of all employees and office expenses of the Reinsured) which are reasonably incurred in connection therewith shall form part of such loss payments.

11.3 Cash losses

The Reinsured shall have the right to request immediate payment from the Reinsurer, of the Reinsurer's proportion of any loss settlement which equals or exceeds the amount stated in the Contractual Details. Any amount so paid shall be credited to the Reinsurer in the next statements of account. All other claims will be settled in account in accordance with Article 12.

11.4 Claims Co-operation

It is a condition precedent to the Reinsurer's obligation to pay under this Agreement, that the Reinsured immediately reports claims for which notification is stipulated in the Contractual Details. Such reporting shall include all material information on the claim, the estimated cost of the loss and the planned settlement thereof.

A further condition precedent to the Reinsurer's obligation to pay is that the Reinsured shall, upon the Reinsurer's request, co-operate with the Reinsurer or any person(s) designated by the Reinsurer in the adjustment and settlement of claims.

In particular, the Reinsurer may require that the Reinsured, after consultation with the Reinsurer, appoint a recognised firm of independent loss adjusters or independent professionals and that it be kept informed of the progress of the settlement and/or be given an opportunity to take part, at its own expense, in the settlement of the claim by delegating a duly authorised representative.

The Reinsured shall not without consulting the Reinsurer or its designated representatives, litigate any such claim.

11.5 Ex-Gratia Claims Payments

Ex-gratia claims payments are excluded from this Agreement and shall be made solely at the cost and expenses of the Reinsured unless the Reinsurer has given its prior consent to contribute to the claims payments made by the Reinsured voluntarily without obligation.

11.6 Outstanding Claims

The Reinsured shall supply the Reinsurer with a statement of unsettled claims as at the end of each quarter such statement showing an aggregate amount for which the Reinsurer may be liable in their years of occurrence. The statement shall be rendered with the accounts not later than the period stated in the Contractual Details.

In respect of the outstanding claims on the Reinsured which exceed the amount stated in the Contractual Details, the Reinsured shall supply the Reinsurer as at the end of each quarter with the name, date of loss and estimated amount of each outstanding claim given separately per year of occurrence. This information shall be forwarded to the Reinsurer not later than the period specified in the Contractual Details.

Following cancellation in terms of the Special Cancellation Clause of this Agreement the information above shall be so forwarded to the Reinsurer until all liability under this Agreement shall have been discharged.

Article 12: Accounts Clause

12.1 Accounts Rendering
The accounts between the Reinsured and the Reinsurer in respect of the business under this Agreement shall be closed as stated in the Contractual Details and rendered in original currency by the Reinsured as soon as possible thereafter but in any event not later than the period specified in the Contractual Details.

12.2 Accounting Items
The statements of account shall show the following details, broken down according to the different shares and classes of insurance:

1 The written premiums payable to the Reinsurer less returns, cancellations and premiums paid for insurances and reinsurances which inure to the benefit of this Agreement.

2 Commissions and expenses.

3 The claims paid less salvages and recoveries.

4 Outstanding losses broken down into years of occurrence.

5 Cash loss recoveries.

All other items or additional information to be included in the accounts are as specified.

12.3 Accounts Confirmation
Accounts shall be assumed to be confirmed if no confirmation or objection by the Reinsurer are received within the period specified in the Contractual Details but inadvertent errors and/or omissions in the accounts shall not delay the payment of any balance due hereunder unless such errors and/or omissions have a major effect on the remittable balance. Any necessary correction shall be made in the next account rendered hereunder except in those cases where the error and/or omission have a major effect on the remittable balance necessitating an immediate adjustment.

12.4 Accounts Settlement
Balances due to the Reinsurer shall be paid by the Reinsured at the same time as the accounts are rendered and balances due to the Reinsured shall be paid at the time of confirmation but not later than the period stated in the Contractual Details.

12.5 Overdue Balances Clause
Any amounts outstanding after the due date on which settlement is due shall be subject to the payment of interest by the debtor party to the creditor party. Interest shall be calculated at the rate stated in the Contractual Details and remain payable until the date upon which payment is received by the creditor party.
The Debtor party shall bear the Creditor party's loss through currency fluctuation.

Article 13: Currency Conversion Clause

13.1 Currency
The Contract and settlement currencies are specified in the Contractual Details.

13.2 Rates of Exchange
For the purpose of this Agreement currencies other than the currency in which this Agreement is written shall be

converted into such currency at the rate of exchange used in the Reinsured's books. Where there is a specific remittance for a loss settlement, the conversion will be at the rate of exchange ruling on the date upon which settlement is effected.

13.3 Additional Charges

All additional charges incurred or to be incurred, including but not limited to bank charges, in respect of any payments made after the due date shall be for the account of the debtor party at the rate prevailing at the due date.

Article 14: Set-Off Clause

Any confirmed balances due by either of the parties to this Agreement, whether they arise out of this Agreement or out of other insurance/reinsurance business relationship between the parties, may be set-off against confirmed balances of the other party. This right shall continue to exist after the termination of this Agreement or of any other insurance/reinsurance business relationship between the parties.

If bankruptcy or liquidation proceedings are initiated in respect of either of the parties to this Agreement, the other party may set off all amounts owing to it, whether they arise out of this Agreement or out of any other insurance/reinsurance business relationship between the parties, against all the amounts due or not yet due for payment by it, whether these arise out of this Agreement or out of any other insurance/reinsurance business relationship between the parties. The same right may be exercised by any party to this Agreement that exercises its right of special termination for any other reason indicated in this Agreement.

Where the Reinsurer has set up a deposit, it may, in the event of bankruptcy or liquidation proceedings being initiated against the Reinsured or in the event of special termination, exercise its rights in respect of the deposit or arising out of the deposit agreement wholly or in part as if they were immediately due debts of the Reinsured, and may set off such debts against any amounts payable to the Reinsured. To the extent that the Reinsurer exercises its right of set-off, it shall waive any rights accorded to it by the deposit agreement.

Article 15: Change of Underwriting Practice Clause

It is a condition precedent to the Reinsurer's liability hereunder that the Reinsured shall not introduce at any time after the Reinsured enters into this Agreement any change in its established acceptance or underwriting policy which may increase or extend the liability or exposure of the Reinsurer hereunder in respect of the classes of business to which this Agreement applies without the prior written approval of the Reinsurer.

Article 16: Incorrect or Incomplete Information Clause

The terms of this Agreement are based on the information supplied by the Reinsured to the Reinsurer prior to the conclusion of this Agreement.

Should the Reinsured have supplied the Reinsurer with information which it knew or should have known to be incorrect or incomplete, this Agreement shall be affected as follows:

(a) If the Reinsurer, in possession of the true facts, would have declined to provide Reinsurance, this Agreement shall be void.

(b) If the Reinsurer, in possession of the true facts, would have provided Reinsurance but under less advantageous terms, this Agreement shall be modified accordingly with effect from the commencement of this Agreement.

The Reinsurer, if in possession of the true facts, will be deemed to have acted as a reasonable Reinsurer would have acted under the same circumstances, unless the Reinsured is able to show otherwise.

Article 17: Inadvertent Delay, Errors and Omissions

Any inadvertent delay, error or omission on the part of either the Reinsured or the Reinsurer shall not relieve either party from any liability which would have attached to this Agreement, provided that such inadvertent delay, error or omission is rectified immediately upon discovery and shall not impose any greater liability on the Reinsured or the Reinsurer than would have attached had the inadvertent delay, error or omission not occurred.

Article 18: Inspection of Records Clause

For as long as either party remains under any liability hereunder the Reinsured shall, upon request by the Reinsurer, make available at the Reinsured's Head Office or wherever the same may be located, for inspection at any reasonable time by such representatives as may be authorised by the Reinsurer for that purpose, all information relating to business reinsured hereunder in the Reinsured's possession or under its control and the said representatives may arrange for copies to be made at the Reinsurer's expense of any of the records containing such information as they may require.

The Reinsurer shall have this right to information as long as either party has a claim against the other arising out of this Agreement.

Article 19: Commencement and Termination

19.1 Commencement

This Agreement shall take effect on the date stated in the Contractual Details and continue in force until terminated and shall be in respect of policies issued or renewed during the period of this Agreement and for policies with periods not to exceed 12 months plus odd time, not exceeding 18 months in all.

This Agreement will follow local standard time.

19.2 Termination

This Agreement may be terminated by either party giving notice of termination on the basis set out in the Contractual Details, such notice to expire on the date stated in the Contractual Details.

During the period of notice the Reinsurer shall continue to participate in all new cessions and renew existing cessions in the same manner as covered by the terms of this Agreement and in all respect as if no notice had been given.

19.3 Service of Notice of Termination

Notice of termination shall be given in writing which shall be deemed to include Registered Letter, Telex, Telegram, Facsimile, or any other permanent means of instantaneous communication. In the event of either party giving notice of termination in accordance with the provisions set out in the Contractual Details then such notice shall be automatically deemed to have been given by both parties.

Article 20. Special Cancellation

1. Either party shall have the right to cancel this Agreement immediately by giving the other party notice in any of the following events:

(a) If the performance of the whole or any part of this Agreement be prohibited or rendered impossible de jure or de facto in particular and without prejudice to the generality of the preceding words in consequence of any law or regulation which is or shall be in force in any country or territory or if any law or regulation shall prevent directly or indirectly the remittance of any or all or any part of the balance of payments due to or from either party.

(b) If the other party has become insolvent or unable to pay its debts or has lost the whole or any part of its paid up capital or has any authority to transact any class of business withdrawn, suspended or made conditional.

(c) If there is any material change in the ownership, management or control of the other party.

(d) If the country or territory in which the other party resides or has its head office or is incorporated shall be involved in armed hostilities with any other country whether war be declared or not or is partly or wholly occupied by another power.

(e) If the other party shall have failed to comply with any of the terms and conditions of this Agreement.

2. All notices of termination in accordance with any of the provisions of this Clause shall be given in writing by Registered Letter, Telex, Telegram, Facsimile or any other permanent means of instantaneous communication and shall be deemed to be served upon dispatch or, where communications between the parties are interrupted, upon attempted dispatch.

3. All notices of termination served in accordance with any of the provisions of this Article shall be addressed to the party concerned at its head office or at any other address previously designated by that party.

4. In the event of this Agreement being terminated at any date other than the expiry date specified herein the then existing premium and loss portfolios shall be withdrawn, net of any retained reserve deposits, either on the basis as specified herein or at alternative terms to be mutually agreed and all liability shall thereby be extinguished or, in respect of those cessions not subject to Portfolio Consideration, run-off to natural expiry.

5. In respect of all cessions allowed to run-off to natural expiry, in the event of this Agreement being terminated at any date other than the expiry date specified herein:

(a) the premium due to the Reinsurer shall be limited to premiums (net of commission) earned by the Reinsured in respect of those policies in force at the date of such termination and calculated in accordance with the Reinsured's normal accounting procedures or at alternative terms to be mutually agreed.

(b) the liability of the Reinsurer shall cease absolutely as at the date of such termination except in respect of losses occurring (or claims made as original) during the currency of this Agreement but which are not settled at the date of termination. In respect of such losses, the liability of the Reinsurer shall continue until its liability is discharged.

6. Termination Amendment

Notwithstanding the provisions above, the right of either party to invoke the termination of this Agreement shall not arise solely due to either party being unable to fulfil their obligations of the whole or any part of this Agreement, due to any sanctions law or regulation applicable to either party which is in force and prohibits such action.

Article 21: Extended Expiry

If this Agreement should expire or terminate whilst a loss occurrence covered hereunder is in progress the Reinsurer will indemnify the Reinsured in terms of this Agreement on any claim resulting from that loss occurrence notwithstanding that part of the loss may have arisen after the time of termination. No part of such loss occurrence shall be claimed against any renewal of this Agreement.

Article 22: Alterations Clause

No variation in the Agreement shall be effective unless evidenced in writing and duly signed on behalf of both parties. Variations sent by instantaneous means of communication are also effective provided they are capable of being shown by means of permanent or retrievable record to have been agreed by both parties.

Article 23: Intermediary Clause

23.1 Intermediary

The intermediary named in the Contractual Details is hereby recognised as the intermediary negotiating this Agreement for all business hereunder.

22.2 Communications

All communications (including but not limited to notices, statements, premiums, return premiums, commissions, taxes, losses, loss adjustments, expenses, salvages and loss settlements) relating thereto shall be transmitted to the Reinsured or the Reinsurer through the named intermediary, subject to the provision of Article 20 (Special Cancellation Clause) herein.

22.3 Payments

(a) Payments by the Reinsurer to the Intermediary for the account of the Reinsured shall be deemed to constitute payment to the Reinsured for the purpose of discharging the Reinsurer's liability hereunder.
(b) Payments by the Reinsured through the Intermediary shall only constitute payment to the Reinsurer when and to the extent that such payments are actually received by the Reinsurer.

Article 24: Change in Law Clause

In the event of any change in the law, whether arising from legislation, decisions of the courts or otherwise, at any time after the Reinsurer entered into this Agreement by which the Reinsurer's liability hereunder is materially increased or extended, the parties hereto agree to take up for immediate discussion at the request of either party a suitable revision in the terms of this Agreement. Failing agreement on such revision within thirty days after such request, it is agreed that the Reinsurer's liability hereunder, whensoever arising, shall be determined as if the said change in law had not taken place.

Article 25: Interpretation Clause

The terms of this Agreement shall be construed in accordance with recognised reinsurance practice rather than being given a strictly literal or legal interpretation.

Article 26: Choice of Law and Jurisdiction Clause

This Agreement (including Arbitration Tribunals) shall be governed by the Law of the Country specified in the Contractual Details whose Courts shall have exclusive or final jurisdiction in any dispute, doubt or question arising hereunder and in the event of any action, claim or demand by any claimant under or by virtue of the original insurance, the liability of the Reinsurer to indemnify the Reinsured in such event shall be limited to judgements delivered or obtained by a Court of competent jurisdiction within the Country specified in the Contractual Details.

Article 27: Arbitration Clause

All matters in difference between the Reinsured and the Reinsurer (hereinafter referred to as "the parties") in connection with this Agreement including its formation and validity and whether arising during or after the period of this Agreement shall be referred to an arbitration tribunal in the manner hereinafter set out.

Unless the parties agree upon a single arbitrator within thirty days of one receiving a written request from the other for arbitration, the claimant (the party, requesting arbitration) shall appoint one arbitrator and give written notice thereof to the respondent.

Within thirty days of receiving such notice, the respondent shall appoint a second arbitrator and give written notice thereof to the claimant, failing which the claimant may apply to the appointor hereinafter named to appoint the second arbitrator.

Before they enter upon a reference the two arbitrators shall appoint a third arbitrator. Should they fail to appoint such a third arbitrator within thirty days of the appointment of the second arbitrator then either of them or either of the parties may apply to the appointor for the appointment of the third arbitrator. The three arbitrators shall decide by majority. If no majority can be reached, the verdict of the third arbitrator shall prevail. He shall also act as Chairman of the Arbitration Tribunal.

Unless the parties otherwise agree, the arbitration tribunal shall consist of persons (including those who have retired) with not less than ten years' experience of insurance or reinsurance as persons engaged in the business itself or advising such business in a professional capacity.

The arbitration tribunal shall, so far as it is permissible under the law and practice of the seat of arbitration, have power to fix all procedural rules for the holding of the arbitration, including discretionary power to make orders as to any matters which it may consider proper in the circumstances of the case with regard to pleadings, discovery, inspection of the documents, examination of witnesses and any other matter whatsoever relating to the conduct of the arbitration, and may receive and act upon such evidence, whether oral or written, strictly admissible or not, as it shall at its discretion think fit.

The appointor shall be as specified in the Contractual Details or if he is unavailable or it is inappropriate for him to act for any reason, such person as may be nominated by the Committee of that body. If for any reason such persons decline or are unable to act then the appointor shall be the judge of the appropriate Courts having jurisdiction at the seat of Arbitration.

All costs of the arbitration shall be at the discretion of the arbitration tribunal who may direct to and by whom and in what manner they shall be paid.

The seat of the arbitration shall be in the place specified in the Contractual Details and the law applicable to both the aforesaid Agreement and this arbitration Agreement shall be the law of that country.

A reasoned award of the arbitration tribunal shall be issued to the parties in writing and shall be final and binding upon the parties who covenant to carry out the same. If either of the parties should fail to carry out the award, the other may apply for its enforcement to a court of competent jurisdiction in any territory in which the party in default is domiciled or has assets or carries on business.

It is understood and agreed that this arbitration agreement shall be construed as a separate and independent contract between the parties hereto and arbitration hereunder shall be a condition precedent to the commencement of any action at law.

Article 28: Sanctions Limitation and Exclusion Clause

No (re)insurer shall be deemed to provide cover and no (re)insurer shall be liable to pay any claim or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose that (re)insurer to any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom, United States of America or African Union.

Article 29: Several Liability Notice LSW 1001 (Reinsurance)

In case there are other subscribing Reinsurers to this Agreement, the subscribing Reinsurers' obligations under this Agreement and/or any other contracts of reinsurance to which they subscribe are several and not joint and are limited solely to their individual subscriptions.

The subscribing Reinsurers are not responsible for the subscription of any co-subscribing reinsurer who for any reason does not satisfy all or part of its obligations.

IN WITNESS WHEREOF, this Slip has been signed in two originals for and on behalf of and by the authority of both the contracting parties to this Agreement, as hereafter:

In this day of 20..
For and on behalf of the Reinsurer

In this day of 20..
For and on behalf of the Reinsured

APPENDIX NO. 1

TABLE OF COMBINED RETENTIONS FOR FIRE MATERIAL DAMAGE AND LOSS OF PROFITS
ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

The Reinsured shall set its gross retention per risk on the basis of the following table of (maximum and minimum) retentions, which forms an integral part of this Agreement.
When fixing the individual gross retention for each risk, its own merits have to be taken into consideration (e.g. public fire brigade, automatic fire extinguishing facilities, type of construction, nature of contents, exposure to storm, flood, earthquake, loss record, etc.). The gross retention, however, must be kept within the stated maximum and minimum limits. The limits are in terms of sum insured.

Risks which are, under normal circumstances, not prone to major losses such as risks constructed of burnt bricks, stones and/or concrete but roofed with corrugated iron sheets or slates, e.g.:

- Services, such as schools, hospitals, etc.
- Residential and office buildings
- Cement plants and stone crushing activities
- Salt works and refineries
- Desalination plants
- Beverage manufacturing and bottling

Maximum Gross Retention: 100% of gross line

Risks possibly prone to major losses such as:

- Hotels
- Sale of goods (including showrooms and department stores)
- Rolling mills, metallurgical plants
- Electrical Industry
- Chemical plants (except petrochemical industry)
- Food
- Power plants
- Rubber
- Oil mills for cotton seeds

Maximum Gross Retention: 75% of gross line

Risks very prone to major losses such as:

- Foam, plastics
- Explosives, matches
- Paper, leather
- Wood processing, chipboard manufacturing
- Grain silos, mills, fodder factories
- Warehouses, open air storage
- Cold stores
- Textiles
- Cotton risks i.e., producing and processing of raw cotton, semi-finished and finished products of cotton
- Manufacturing textile companies, which include manufacturing of leather garments.
- Animal Feed

Maximum Gross Retention: 60% of gross line

The list of different risks cannot be exhaustive; it should, however, serve as a guideline for the setting of retentions.

APPENDIX NO. 2

ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS

TABLE OF COMBINED RETENTIONS FOR ENGINEERING, CONTRACTOR ALL RISKS AND CONTRACTOS ERECTION ALL RISKS

The Reinsured shall set its gross retention per risk on the basis of the following Table of Retentions:

Class of business	100% maximum limit One Gross Line any one risk on sum insured basis or Probable Maximum Loss (PML) (Naira)	No of lines	Reinsurer's Surplus Maximum Cession Limit (Naira)
Boiler and Pressure Vessel and Consequential Loss combined All insured items shall be ceded in the same proportion.	50,000,000 per premises	10	500,000,000
Machinery Breakdown and Consequential Loss combined All insured items shall be ceded in the same proportion. It is warranted that Consequential Loss insurance will be written in Conjunction with a relevant Machinery Breakdown policy.	50,000,000 per premises	10	500,000,000
Deterioration of Stock following Machinery Breakdown It is warranted that Deterioration of Stock insurance will be written in conjunction with a relevant Machinery Breakdown policy.	50,000,000 per policy	10	500,000,000
Erections All Risks and Construction Machinery combined **Third Party Liability** Cessions shall be on the Basis of the Material Damage section of the Insurance policy. Third party Liability Section and Plant, machinery written in conjunction with Erections All Risks Policy shall be in the same proportion as the material damage section.	100,000,000 per policy 30,000,000 anyone loss or occurence	10	1,000,000,000 Same proportion

LONDON SCHOOL OF INSURANCE

Contractors' All Risks and Contractors' Plant, Machinery and Equipment combined **Third Party Liability** Cessions shall be on the Basis of the Material Damage section of the Insurance policy. Third party Liability Section and Plant, machinery written in Conjunction with Contractors' All Risks Policy shall be in the same proportion as the material damage section.	100,000,000 per policy 30,000,000 anyone loss or occurence	10	1,000,000,000 Same proportion
Contractors' Plant, Machinery and Equipment Retention or Gross Retention and Cession to Treaty shall be on the basis of separate contractors' plant, machine and equipment insurance policies underwritten on an annual insurance period, excluding absolutely third party liability cover and which will not be underwritten in conjunction with Contractors' All Risks policy. All insured items shall be ceded in the same proportion.	30,000,000 per policy	10	300,000,000
Electronic Equipment and Increased Cost of Working combined.	50,000,000 per fire area or per installation or per policy	10	500,000,000

However, the aggregated Retention or Gross Retention and Cession to Treaty for Electronic Equipment shall not exceed the 100% maximum retention and treaty limits and all covers must be reinsured in the same proportion, depending primarily on the cession on the material damage section.

A "fire area" will represent a complex or insured premises where fire, lightning, explosion or any other insured peril can cause a FATAL loss. In this connection a complex will be interpreted as consisting of one or several buildings or premises which are separated physically and absolutely or structurally by fire walls or other means from the neighbouring buildings or premises.

In the case of pronounced exposure to natural hazards like earthquake or flood and inundation, the retention or gross retention and cession to treaty shall be deemed to apply per location.

APPENDIX N.3

NATURAL PERILS EVENT LIMIT CLAUSE
ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

1. For each and every loss occurrence in respect of Natural Perils, the liability of the Reinsurer under this Agreement covering material damage and/or business interruption policies shall be limited to the Reinsurer's proportion of a limit of:

NGN 2,000,000,000 / 10% of the aggregate exposure ceded to the Treaty.

This limitation shall be valid for loss occurrences commencing during the period of this Agreement and involving risks which have been ceded on an underwriting year basis in accordance with the conditions of this Agreement.

If an event involves two or more underwriting years, the above limitation in respect of the Reinsurer's liability under this Agreement shall be reduced in the same proportion as the losses (paid and outstanding) of that event involving this Agreement contribute to the sum of all losses of that event in respect of all underwriting years together.

2 A loss occurrence which is covered according to the conditions of this clause and is in progress when this Agreement should expire or be terminated, shall, irrespective of any other condition(s), be treated as if the entire loss had occurred prior to the expiration of the said Agreements. In this case no part of such a loss occurrence can however be claimed against any Agreement(s) issued in renewal or substitution of this Agreement.

3 The total liability of the Reinsurer during the period of this Agreement in respect of loss occurrences covered according to the conditions of this clause shall be limited to the Reinsurer's proportion of a limit of:

NGN 2,000,000,000 / 10% of the aggregate exposure ceded to the Treaty.

4 A "loss occurrence" in respect of perils to which this clause refers shall be understood to mean all individual losses arising out of and directly occasioned by one and the same event. However, the duration and extent of any "loss occurrence" so defined shall be limited to:

a) 72 (Seventy Two) consecutive hours as regards a hurricane, typhoon, windstorm, rainstorm, hailstorm, tornado, typhoon and/or cyclone;

b) 72 (Seventy Two) consecutive hours as regards an earthquake, seaquake, volcanic eruption and/or tidal wave;

c) 72 (Seventy Two) consecutive hours as regards any claim to which two or more of the abovementioned perils contribute;

d) 168 (One Hundred and Sixty Eight) consecutive hours as regards any claim resulting from a peril mentioned above and not indicated under a) and b).

If any event is of greater duration than the above periods, the Reinsured has to divide that event into two or more loss occurrences whereby:

a) the periods for the first loss occurrence has to commence at the date and time of the first individual loss that is indemnifiable by the Reinsurer;

b) two periods cannot overlap and no gap can be between the two periods.

APPENDIX NO 4

SLIDING SCALE COMMISSION
ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

The Reinsured shall at the end of each treaty year calculate an adjusted commission on the following "sliding scale" basis:-

If Loss Ratio % is:	Commission % is:
63.00% or more	27.00%
62.00% and more but less than 63.00%	27.50%
61.00% and more but less than 62.00%	28.00%
60.00% and more but less than 61.00%	28.50%
59.00% and more but less than 60.00%	29.00%
58.00% and more but less than 59.00%	29.50%
Equal to or less than 57.00%	30.00%

Provisional Commission: 20%

The commission calculation shall be submitted to the Reinsurer at the same time as the fourth quarter account and the difference between the provisional commission and the adjusted commission shall thereupon become payable by the debtor party.

In the event of cancellation of this Agreement on a run-off basis, then a further calculation shall be done at the end of the second year and a further adjustment of the commission for the year shall then be made, and a similar calculation and adjustment shall be made at the end of each year thereafter, until such time as any outstanding claims brought into such calculation shall be extinguished in which event the calculation and adjustment at the end of that year shall be final.

For the purpose of applying the sliding scale:
"Loss ratio" shall mean the percentage of "Incurred Losses" to "Earned Premiums"

"Incurred Losses" shall mean losses and loss expenses paid during the treaty year plus outstanding loss reserve at the end of the treaty year (calculated on the same basis as the loss portfolio withdrawal, if applicable) less the Reinsurer's reserve for outstanding losses at the end of the previous treaty year (calculated on the same basis as the incoming loss portfolio, if applicable).

"Earned Premiums" shall mean premiums (net of taxes if applicable) paid by the Reinsured under this Agreement for the treaty year less the premium reserve for the treaty year (calculated on the same basis as the premium portfolio withdrawal, if applicable) plus the premium reserve from the previous treaty year ((calculated on the same basis as the premium portfolio credited at the commencement of the treaty year, if applicable)

APPENDIX NO. 5

EXCLUSIONS
ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

APPENDIX NO. 5.1

War and Civil War, Political Risk and Terrorism

The following shall be excluded from this Agreement:

Any loss or damage occasioned by or through or in consequence, directly or indirectly, of any of the following occurrences, namely:

1 War, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not), civil war.

2 Abandonment and/or permanent or temporary dispossession resulting from detention, confiscation, seizure, restraint, commandeering, nationalisation, appropriation, destruction or requisition by order of any government de jure or de facto or by any public authority.

3 Mutiny, civil commotion, military rising, insurrection, rebellion, revolution, military or usurped power, martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege.

4 Any act, including but not limited to labour disturbance, lock-out, riot or strike, which is calculated or directed to bring about loss or damage in order to further any political aim, objective or cause, or to bring about any social or economic change, or in protest against any State or Government, or any political or local authority, or for the purpose of imposing fear in the public or any section thereof.

5 The act of any lawfully established authority in controlling, preventing, suppressing or in any other way dealing with any occurrence referred to in clauses 1 to 4 above.

6 Plundering, looting, war pillage

For the purposes of clauses 4, 5 and 6, any loss or damage occasioned directly by a labour disturbance, lock-out, riot or strike or in order to bring about any social or economic change which is not politically motivated as envisaged in clause 4 shall not be excluded.

In any action, suit or other proceeding where the Reinsurer alleges that by reason of these provisions any loss, damage, cost or expense is not covered by this Reinsurance Agreement, the burden of proving that such loss, damage, cost or expense is covered shall be upon the Reinsured.

Terrorism Exclusion Clause
Notwithstanding any provision to the contrary within this agreement or any endorsement thereto, this reinsurance agreement does not cover any liability, loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from, happening through or in connection with any act of terrorism, regardless of any other cause contributing concurrently or in any other sequence to the loss, damage, cost or expense.

For the purpose of this exclusion, terrorism means an act, including but not limited to the use of violence or force and/or the threat thereof, whether as an act harmful to human life or not, by any person or group(s) of person(s), whether acting alone or on behalf of, or in connection with any organisation(s) or government(s) or any person or body of persons, committed for political, religious, personal, ethnic or ideological reasons or purposes including any act committed with the intention to influence any government and/or for the purpose of inspiring fear in the public

or any section thereof.
In any action, suit or other proceeding in which the Reinsurer alleges that by reason of this definition any loss, damage, cost or expense is not covered by this Reinsurance Agreement, the burden of proving that such loss, damage, cost, or expense is covered shall be upon the Reinsured.

APPENDIX NO. 5.2

Nuclear Energy Risks Exclusion Clause (Reinsurance) (1994) (Worldwide excluding U.S.A. and Canada) - NMA 1975A.

This Agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or Pools and/or Associations.

For all purposes of this Agreement Nuclear Energy Risks shall mean all first and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of:

(I) All **Property** on the site of a nuclear power station.

Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.

(II) All **Property** on any site (including but not limited to the sites referred to in (I) above) used or having been used for:

(a) The generation of nuclear energy; or
(b) The **Production, Use or Storage of Nuclear Material.**

(III) Any other **Property** eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.

(IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by **Nuclear Material**.

Except as undernoted, Nuclear Energy Risks shall not include:

(i) Any insurance or reinsurance in respect of the construction or erection or installation or replacement or repair or maintenance or decommissioning of **Property** as described in (I) to (III) above (including contractors' plant and equipment), and/or

(ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above;

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by **Nuclear Material**.

However, the above exemption shall not extend to:

(1) The provision of any insurance or reinsurance whatsoever in respect of:

(a) **Nuclear Material**;
(b) Any **Property** in the **High Radioactivity Zone or Area** of any **Nuclear Installation** as from the introduction of **Nuclear Material** or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.

(2) The provision of any insurance or reinsurance for the undernoted perils:

- Fire, lightning, explosion;
- Earthquake;

- Aircraft and other aerial devices or articles dropped therefrom;
- Irradiation and radioactive contamination;
- Any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other **Property** not specified in (1) above which directly involves the **Production, Use or Storage of Nuclear Material** as from the introduction of **Nuclear Material** into such **Property**.

Definitions

"**Nuclear Material**" means:

(i) Nuclear fuel, other than uranium and depleted uranium, capable of producing energy by self-sustaining chain process of nuclear fission outside a Nuclear Reactor, either alone or in combination with some other materials; and

(ii) **Radioactive Products or Waste.**

"**Radioactive Products or Waste**" means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilisation of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

"**Nuclear Installation**" means:

(i) Any **Nuclear Reactor**;
(ii) Any factory using nuclear fuel for the production of **Nuclear Material**, or any factory using nuclear fuel for the processing of **Nuclear Material**, including any factory using fuel for the reprocessing of irradiated nuclear fuel; and
(iii) Any facility where **Nuclear Material** is stored, other than storage incidental to the carriage of such material.

"**Nuclear Reactor**" means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without any additional source of neutrons.

"**Production, Use or Storage of Nuclear Material**" means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of **Nuclear Material**.

"**Property**" shall mean all land, building, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

"**High Radioactivity Zone or Area**" means:

(i) For nuclear power stations and **Nuclear Reactors**, the vessel or structure which immediately contains the core (including its support and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and
(ii) For non-reactor **Nuclear Installations**, any area where the level of radioactivity requires the provision of a biological shield.

APPENDIX NO. 5.3

Nuclear Causes Exclusion Clause

Unless specifically agreed in respect of an insured loss involving Nuclear Material under determined circumstances, this Agreement does not cover legal liability, loss (including consequential loss) or damage, cost or expense caused directly or indirectly by any of the following, regardless of any other cause or event contributing concurrently or in any other sequence to the loss:

Nuclear material, Nuclear Fission or Fusion, Nuclear Radiation, Nuclear Waste from the use of Nuclear Fuels, Nuclear Explosives or any Nuclear Weapon.

For the sake of clarity, the above exclusion does not cover legal liability, loss (including consequential loss) or damage, cost or expense caused directly or indirectly by or contributed to by or arising from ionising radiation or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel.

Definitions:

"Nuclear material" as defined in NMA 1975 (A).

"Nuclear fission" means a nuclear reaction in which a heavy nucleus splits spontaneously or on impact with other particle with the release of energy.

"Nuclear fusion" means a nuclear reaction in which atomic nuclei of low atomic number fuse to form a heavier nucleus with the release of energy.

"Nuclear radiation" means the absorption of electro-magnetic radiation by a nucleus having a magnetic moment when in an external magnetic field.

"Nuclear waste" as defined in NMA 1975 (A).

"Nuclear fuels" means a substance that will sustain a fission chain reaction so that it can be used as a source of nuclear energy.

"Nuclear explosives" means an explosive involving the release of energy by nuclear fission or fusion or both.

"Nuclear weapon" means a nuclear device designed, used or capable of being used for the inflicting of bodily harm or property damage.

APPENDIX NO. 5.4

Radioactive Exclusion Cause (Reinsurance)

Unless specifically agreed for an insured loss involving nuclear material under determined circumstances, this Agreement does not cover loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with nuclear energy or radioactivity of any kind including but not limited to any of the following regardless or any other cause or event contributing concurrently or in any other sequence to the loss:

1 ionising radiations from or contamination by radioactivity from any nuclear fuel or from any nuclear waste or from the combustion of nuclear fuel;

2 the radioactive, toxic, explosive or other hazardous or contamination properties of any nuclear installation, reactor or other nuclear assembly or nuclear component thereof;

3 any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter.

APPENDIX NO. 5.5

Terrorism Exclusion Clause for Contamination and Explosives
It is agreed that, regardless of any contributory causes, this reinsurance does not cover any loss, damage, cost or expense directly or indirectly arising out of

a) biological or chemical contamination
b) Missiles, bombs, grenades, explosives

due to any act of terrorism.

For the purpose of this endorsement an act of terrorism means an act, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological, or ethnic purposes or reasons including the intention to influence any government and/or to put the public, or any section of the public, in fear.

For the purpose of a) «contamination» means the contamination, poisoning, or prevention and/or limitation of the use of objects due to the effects of chemical and/or biological substances.

If the Reinsurer alleges that by reason of this exclusion, any loss, damage, cost or expense is not covered by this Agreement the burden of proving the contrary shall be upon the Reinsured.

APPENDIX NO. 5.6

Computer Loss General Exclusion
General Exclusion applicable to all sections of this Agreement insuring damage to property or the consequences of damage to property or any liability

Notwithstanding any provision of this Agreement including any special exclusion, exception or extension or other provision not included herein which would otherwise override a general exclusion, this Agreement does not cover:

a) loss or destruction of or damage to any property whatsoever (including a computer) or any loss or expense whatsoever resulting or arising therefrom;

b) any legal liability of whatsoever nature;

c) any consequential loss;

directly or indirectly caused by or contributed to by or consisting of or arising from the incapacity or failure of any computer, correctly or at all,

i) to treat any date as the correct date or true calendar date, or correctly or appropriately to recognise, manipulate, interpret, process, store, receive or to respond to any data or information, or to carry out any command or instruction, in regard to or in connection with any such date or

ii) to capture, save, or to process any information or code as a result of the operation of any command which has been programmed into any computer, being a command which causes the loss of data or the inability to capture, save, retain or correctly to process such data in regard to or in connection with any such date or

iii) to capture, save, retain or to process any information or code due to programme errors, incorrect entry or the inadvertent cancellation or corruption of data and/or programmes or

iv) to capture, save, retain or to process any data as a result of the action of any computer virus, or other corrupting, harmful or otherwise unauthorised code or instruction including any Trojan horse, time or logic bomb or worm or any other destructive or disruptive code, media or programme or interference.

A computer includes any computer, data processing equipment, microchip, integrated circuit or similar device in computer or non-computer equipment or any computer software, tools, operating system or any computer hardware or peripherals and the information or data electronically or otherwise stored in or on any of the above, whether the property of the insured or not.

Special Extension to the above General Exclusion

A Loss or destruction of or damage to the insured property by fire, explosion, lightning, earthquake or by the special perils referred to in B below or indemnified by the Glass, Employer's Liability, Stated Benefits, Group Personal Accident or Motor section shall not excluded by this General Exclusion.

B The special perils that are not excluded for the purpose of this special extension are damage caused by:

1. storm, wind, water, hail or snow excluding damage to property
   a) arising from its undergoing any process necessarily involving the use or application of water;
   b) caused by tidal wave originating from earthquake or volcanic eruption;
   c)* in the underground workings of any mine;
   d)* in the open (other than buildings structures and plant designed to exist or operate in the open);
   e)* in any structure not completely roofed;
   f)* being retaining walls;

   *for c), d), e) and f) unless so described and specifically insured as a separated Item.

2. aircraft and other aerial devices or articles dropped therefrom;

3. impact by animals, trees, aerials, satellite dishes or vehicles excluding damage to such animals, trees, aerials, satellite dishes or vehicles or property in or on such vehicles.

These special perils do not cover wear and tear or gradual deterioration.

C The above General Exclusion also does not apply to consequential loss as insured by any Business Interruption indemnity provided by this Treaty to the extent that such consequential loss results from damage to insured property by the perils referred to A above.

D This Special Extension will not insure any loss destruction, damage or consequential loss if it would not have been insured in the absence of this Computer Losses General Exclusion and this Special Extension.

E This Special Extension shall not apply to any Public Liability indemnity.

APPENDIX NO. 5.7

Electronic Date Recognition Clause EDRC (B)

Section 1

This Agreement does not cover any loss, damage, cost, claim or expense, whether preventative, remedial or otherwise, directly or indirectly arising out of or relating to:

a) the calculation, comparison, differentiation, sequencing or processing of data involving the date change to the year 2000, or any other date change, including leap year calculations by any computer system, hardware, programme or software and/or any microchip, integrated circuit or similar device in computer equipment or non-computer equipment, whether the property of the insured or not; or

b) any change, alteration or modification involving the date change to the year 2000 or any other date change, including leap year calculations, to any such computer system, hardware, programme or software or any microchip, integrated circuit or similar device in computer equipment or non-computer equipment, whether the property of the insured or not.

This clause applies regardless of any other cause or event that contributes concurrently or in any sequence to the loss, damage, cost, claim or expense.

However, this section shall not apply in respect of physical damage occurring at the insured's premises arising out of the perils of fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, hurricane, cyclone, riot, strike, civil commotion, vandalism, malicious mischief, earthquake, volcano, tsunami, freeze or weight of snow.

Section 2

Notwithstanding Section 1 above, this Agreement does not cover any costs and expenses, whether preventative, remedial or otherwise, arising out of or relating to change, alteration or modification of any computer system, hardware, programme or software or any microchip, integrated circuit or similar device in computer or non-computer equipment, whether the property of the insured or not.

Section 3

The date change to the year 2000, or any other date change, including leap year calculations, shall not in and of itself be regarded as an event for the purposes of this reinsurance.

APPENDIX NO. 5.8

Computer Virus and on-line risks “Clarification Agreement”

Property damage covered under this Agreement shall mean physical damage to the substance of property.

Physical damage to the substance of property shall not include damage to data or software, in particular any detrimental change in data, software or computer programmes that is caused by a deletion, a corruption or a deformation of the original structure.

Consequently, the following are excluded from this Agreement:

A. Loss or damage to data or software, in particular any detrimental change in data, software or computer programmes that is caused by a deletion, a corruption or a deformation of the original structure, and any business interruption losses resulting from such loss or damage. Notwithstanding this exclusion, loss of or damage to data or software which is the direct consequence of insured physical damage to the substance of property, shall be covered.

B. Loss or damage resulting from an impairment in the function, availability, range of use or accessibility of data, software or computer programmes, and any business interruption losses resulting from such loss or damage.

APPENDIX NO. 5.9

Institute Chemical, Biological, Bio-Chemical, Electromagnetic Weapons and Cyber Attack Exclusion Clause.

This clause shall be paramount and shall override anything contained in this Agreement inconsistent therewith.

In no case shall this Agreement cover loss, damage, liability or expense directly or indirectly caused by or contributed to by or arising from:

1 any chemical, biological, biochemical or electromagnetic weapon;

2 the use or operation, as a means for inflicting harm, of any computer, computer system, computer software programme, computer virus or process or any other electronic system.

APPENDIX NO. 5.10

Transmission and Distribution Lines Exclusion

All above ground transmission and distribution lines, including wires, cables, poles, pylons, standards, towers, other support structures and any equipment of any type which may be attendant to such installations of any description for the purpose of transmission and distribution of electric power, telephone or telegraph signals, and all communication signals whether audio or visual.

This exclusion applies to both above and below ground equipment which are more than150 meters (or 500 feet) from the insured structure.

This exclusion applies both to physical loss or damage to the equipment and all business interruption, consequential loss, and/or other contingent losses related to transmission and distribution lines.

It is understood and agreed that public utilities extension and/or suppliers extension and/or contingent business interruption coverages are not subject to this exclusion, provided that these are not part of a transmitters' or distributors' policy.

APPENDIX NO. 5.11

Pollution/Contamination Exclusion Clause

This Agreement excludes any loss arising from Pollution or Contamination except (unless otherwise excluded) destruction of or damage to the property insured caused by:

pollution or contamination which itself results from a peril reinsured against

any peril reinsured against which itself results from a pollution or contamination

This Agreement also excludes any liability in connection with disposed or dumped waste materials or substances.

APPENDIX NO. 5.12

Asbestos Exclusion Clause

It is hereby understood and agreed that this Agreement shall not apply to, and does not cover, any actual or alleged liability whatsoever for any claim or claims in respect of loss or losses directly or indirectly caused by, arising out of, resulting from, in consequence of, in any way involving, or to the extent contributed to by, the hazardous nature of asbestos in whatever form or quantity.

APPENDIX NO. 5.13

Sanctions Limitation and Exclusion Clause

The Reinsurer shall be deemed to provide no cover and shall not be liable to pay any claim or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose the Reinsurer to any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom, United States of America or African Union.

APPENDIX NO. 6

ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

6.1 Supplementary Fire and Allied Perils Exclusions List

1. Obligatory Insurances and Reinsurances of any sort.
2. Excess of Loss Insurances and Reinsurances/Layered policies, Stop Loss or First Loss basis (First Loss exclusion is not applicable for Natural Perils and/or Burglary).
3. Liability arising from Insurance Loss Portfolio Transfers of any kind.
4. Pools and Pooling Arrangements.
5. Line Slips, Binding Authorities, Broker Covers and Captive Pools.
6. Advance Loss of profits.
7. All legal liabilities other than Owners/Occupiers Liability insured under House owners and/or Householders Combined and Office Comprehensive policies.
8. Policies issued or renewed for a period exceeding 12 months plus odd time provided that each insurance period does not exceed a maximum of 18 months.
9. Marine Hull and Cargo and all Consequential Loss resulting therefrom.
10. Inland Transit (other than for Fire and Allied Perils) and all Consequential Loss resulting therefrom.
11. Aviation Hull and Liabilities including Air Cargo, and all Consequential Loss resulting therefrom.
12. On and Offshore Oil and/or Gas Drilling and Production Rigs, including any Consequential Loss resulting therefrom.
13. Property insured under Motor Vehicle policies of any type.
14. Credit insurance of any kind; guarantees and bonds of any kind, including Financial Guarantees, Fidelity and Surety Bonds.
15. Hail on Growing Crops of all kinds including but not limited to agricultural and horticultural or when written as a peril separately and all business interruption resulting therefrom.
16. Comprehensive Crop Insurance (on crops of all kinds including but not limited to agricultural and horticultural), and all business interruption resulting therefrom.
17. On trees, shrubs and bushes of all types and consequential loss resulting therefrom
18. Money and all Consequential Loss resulting therefrom (other than money covered on a Fire and Allied Perils policy to be declared to Leading Underwriter (African Reinsurance Corporation) and approval obtained.
19. Accidental Damage and Business Interruption resulting therefrom other than under an Industrial/Assets All Risks cover or Accidental Damage extension to the Fire policy, however, limited to 5% or US$100,000 equivalent in local currency maximum whichever is lower, of total sum insured per location, per policy unless declared and agreed by the Lead Underwriter (African Reinsurance Corporation).
20. Livestock and all Consequential Loss resulting therefrom (other than Livestock covered on a Fire and Allied Perils policy).
21. Business written with an aggregate excess which applies to Motor, Liability, Personal Accident, Marine and Aviation business unless agreed by the Leading Reinsurer.
22. Any form of mining risks.
23. Burglary (other than under Domestic combined policies).
24. Theft (other than under Office Comprehensive and Domestic policies).
25. Any exposures out of the USA and Canada.
26. Difference in Conditions policies or Difference in Limits policies.
27. Engineering, Contractors All Risks, Erection All Risks and Motor.
28. Customers and Suppliers extension of a Business Interruption section (or otherwise referred to as Contingent Business Interruption cover) which is:
    a) not on a named perils basis;
    b) named direct suppliers where the limit exceeds 20% of the Business Interruption Sum Insured or policy limit whichever is the lesser as stated in the underlying policy schedule, unless agreed by the Reinsurer;
    c) un-named direct suppliers where the limit exceeds 5% of the Business Interruption Sum Insured or policy limit whichever is the lesser as stated in the underlying policy schedule, unless

agreed by the Reinsurer;

d) not triggered by damage from named perils occurring at the Customer and/or Suppliers' premises;

e) not separately evaluated in terms of accumulation exposure;

f) not individually rated, assessed and priced.

29. Stock Floater policies other than in respect of Fire and Allied Perils as defined under this Agreement and restricted to the insured premises as stated in the underlying policy schedule.
30. Ex gratia payments otherwise than with the prior consent of the Reinsurer only.
31. Business Interruption with an indemnity period exceeding 18 months.

Referrals:

6.2 Supplementary Engineering Exclusions List

1. Business written on an excess of loss (excepting policies with normal underwriting excesses or deductibles), layered, stop loss or first loss basis (except for First Loss Indemnity policies).
2. Business accepted by the Reinsured under any reinsurance arrangement.
3. All Risks policies covering other classes or perils than falling within the scope of this treaty.
4. Penalty insurance, guarantees or other insurance for performance, products, delay, availability and efficiency.
5. Run-off covers.
6. Insurance covering currency risks, transfer risks, del credere risk and the like.
7. Project works where the cover incepts after commencement of the actual works unless the risk premium is based on the contract in its entirety on an as if basis from the date of commencement of the project works and any loss or damage due to inherent defects existing at the time of the cover incepting being excluded, whether known to the insured or not.
8. Defects Contingency not written in conjunction with a Contractors or Engineering All Risk policy.
9. Marine risks, but not excluding inland transit when written contingent to an Erection All Risks or Contractors' All Risks policies.
10. Contractor's Plant and/or Third Party Liability cover unless written in conjunction with and in the same proportion of an Erection All Risks or Contractors All Risks share.
11. Decennial Liability covers.
12. All offshore risks.
13. Full design cover.
14. Policies naming the Engineer and/or Architect as an insured part, unless the policy excludes Professional Indemnity covers for such parties.
15. Policies covering experimental or prototype machinery and equipment.
16. Machinery Breakdown and Machinery Breakdown Consequential Loss of Profits covers for aircraft engines.
17. Machinery Breakdown and Machinery Breakdown Consequential Loss of Profits for mobile agricultural implements and machines and for irrigation piping and ancillary equipment or household appliances.
18. Profit Sharing or Long Term Agreements.
19. Accidental damage beyond the scope of a standard market Erection All Risks or Contractors' All Risks or Machinery Breakdown or Plant All Risks or Electronic Equipment policy.
20. Third Party Liability on Erection All Risks and Contractors' All Risks policies not limited to the contract site as defined in the contract.
21. Design of temporary works.
22. Erection All Risks or Contractors' All Risk policies where the Defects Maintenance period is in excess of 12 months (unless agree by the Leading Reinsurer) or where the maintenance cover is not limited to defects with origin on site.
23. Debris Removal cover with no damage to the works unless limited in amount and to the site.
24. Confiscation, nationalisation and abandonment.
25. Contingency policies, Difference in Conditions policies or policies covering the deductible under another policy.
26. Insurances which are or should be written in the Motor Department.
27. Aviation Insurances which are or should be written in the Motor Department.

28. Professional indemnity cover.
29. Claims arising from any costs which would be deemed to be excluded under the terms of the Prolongation Clause and any costs beyond those specifically identified and underwritten accordingly.
30. Policies issued on a short period basis, i.e. not the full contract period.
31. “Hours” clause on Contractors’ All Risks policies.
32. Conventional annual policies issued on a short period basis.
33. Plant All Risks policies on the basis of reinstatement conditions.
34. Any direct or indirect loss by infectious disease, outbreak (infectious epidemics).
35. Ex gratia payments otherwise than with the prior consent of the Reinsurer only.
36. Space Risks and Space-Related Risks such as satellites, spacecraft, launch vehicles and major components thereof from the beginning of transit to launch site; launch sites.

Referrals

List of referral risks which may be covered subject to the Leading Reinsurer’s approval.

1. Advance Loss of Profits or Delay in Start-up covers.
2. Nuclear power plants.
3. Annual blanket covers exceeding 12 months non-cancellable clauses or involving erection or construction periods exceeding 24 months.
4. Projects with a value in excess of Nigerian Naira 300,000,000 Sum Insured for 100%.
5. Lateral Support covers on Contract works policies in excess of a limit of Nigerian Naira 30,000,000.
6. Inclusion of Suppliers and Customers extensions, other than public services, under Consequential Loss of Profits covers.
7. Consequential Loss of Profits covers with Indemnity Periods in excess of 24 months.
8. Petrochemical plants.
9. Waste incineration plants and Black Liquor Recovery boilers.
10. Draglines and underground mining projects.
11. Power stations.
12. Major irrigation systems.
13. Wet risks.
14. Consequences of faulty design cover on civil engineering risks

APPENDIX NO. 7

LOSS PARTICIPATION

ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING SURPLUS
SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAPENG/SPLS/..........

From Loss Ratio of 70% to 200%: Reinsured to pay 100%

In the event that the overall losses for the accounting year exceed 70% of the earned premium, the Reinsured shall take 100% of the losses exceeding the earned premium income from 70% up to 200%.

The loss participation shall be calculated on the basis of a loss participation statement to be drawn up by the Reinsured at the end of each Reinsurance Period. Such loss participation statement shall be sent to the Reinsurer together with the last account for the Reinsurance Period and any amounts due shall be settled at the same time. The loss participation statement shall be adapted at the end of every following Reinsurance Period until the Reinsurance Period under consideration is completely wound up or transferred.

For the purpose of applying the loss participation clause:
"Loss ratio" shall mean the percentage of "Overall Losses" to "Earned Premiums"

It is understood that "overall losses" shall mean losses paid plus reserves for outstanding losses, allocated to the relevant Reinsurance Period. "Earned premium income" shall mean the gross reinsurance premiums ceded, allocated to the relevant Reinsurance Period.

Non Proportional Reinsurance Agreement
Fire and Allied Perils Catastrophe Excess of Loss

CONTRACTUAL DETAILS

SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAP/CATXL/..........

made and entered into between

ABC INSURANCE COMPANY LIMITED, Lagos, Nigeria,

(hereinafter called the “Reinsured”)
of the one part

and

AFRICAN REINSURANCE CORPORATION, Lagos, Nigeria,

and/or its Subsidiaries and/or Regional Offices,
(hereinafter called the “Reinsurer”)
of the other part

This Slip Reinsurance Agreement consisting of the Contractual Details and Contractual Wording together with all Appendices, Annexes and Addenda pertaining thereto, shall be read together as one Contract and is issued in two originals to be signed by both parties in executing this Agreement.

It is understood and agreed by the parties to this Slip Reinsurance Agreement that wherever the word “Nil” appears for any of the serially numbered section of this Slip, it will be construed as being of no effect and/or will not operate for the Agreement.

For the purpose of this Agreement, the words “Agreement”, “Contract”, Reinsurance” and “Treaty” shall have the same meaning wherever they may appear and may be interchangeable.

1. Reinsured:

ABC Insurance Company Limited, Lagos, Nigeria.
10th Floor, 444 Presidential Road
Lagos
Nigeria
P.O. Box
E-mail:

2. Period:

Losses Occurring During the period 12 months from 1st January, 2013 to 31st December 2013, both days inclusive, Local Standard Time at the place of the loss.

The rights and obligations of both parties to this Agreement shall remain in full force until the effective date of expiry or termination after which the liability of the Reinsurer shall cease absolutely except in respect of losses occurring during the period of this Agreement, the claims for which remain unsettled at that date

3. Type:

Fire and Allied Perils Catastrophe Excess of Loss Reinsurance Agreement.

4. Class of Business:

The Net Retention of the Reinsured in respect of:

All insurances whether direct or by way of coinsurance and facultative reinsurances and/or compulsory legal cessions to the Reinsured, accepted and underwritten and/or renewed by the Reinsured in its Fire Department and designated by the Reinsured as Fire business covering:

a) Material Damage and Business Interruption following the perils of:

Fire, Bush Fire, Lightning or Thunderbolt, Explosion, Non-Political Riot, Strike, Civil Commotion, and Malicious Damage, Lock-out Workers, Aircraft and aerial devices or articles dropped therefrom, Burglary and/or theft, Impact by animals trees, aerial, satellite dishes or vehicles, Bursting or Overflowing of Water Tanks or Pipes, Cyclone, Hurricane, Tornado, Typhoon, Earthquake, Volcanic Eruption, Subterranean Fire, Flood, Tidal Wave and Tsunami, Collapse, Subsidence, Ground Heave, and Landslide;

and including the following interests:

b) Domestic Package policies excluding motor policies;

c) Industrial All Risks and Assets All Risks policies excluding all Contractors' All Risks, Erection All Risks, Machinery Loss of Profits and Deterioration of Stock exposures but limited to 5% cover for Machinery Breakdown and Electronic Equipment.

5. Exclusions:

This Agreement will not cover, among others, certain types of insurances and reinsurances, locations, risks and perils, and properties, in respect of material damage and consequential loss resulting therefrom, specified hereafter

Exclusions as per Appendix No. 1 attached:

1. War, Civil War, Political Risk and Terrorism Exclusion Clause.
2. Nuclear Energy Risks Exclusion Clause (Reinsurance) (1994) (Worldwide excluding U.S.A. and Canada) - NMA 1975A.
3. Nuclear Causes Exclusion Clause.
4. Radioactive Exclusion Cause (Reinsurance).
5. Terrorism Exclusion Clause for Contamination and Explosives.
6. Computer Loss General Exclusion Clause.
7. Electronic Data Recognition Clause EDRC (B).
8. Computer Virus and on-line risks "Clarification Agreement".
9. Institute Chemical, Biological, Bio-Chemical, Electromagnetic Weapons and Cyber Attack Exclusion Clause.
10. Transmission and Distribution Lines Exclusion Clause.
11. Pollution and Contamination Exclusion Clause.
12. Asbestos Exclusion Clause.
13. Supplementary Fire and Allied Perils Exclusion List as per Appendix No 2 attached.

Amendments to exclusions shall be advised in writing to and be expressly agreed by the Leading Reinsurer only.

Special Acceptances of risks excluded from the scope of this Agreement shall be Agreed by the Leading Reinsurer. Such Special Acceptances will not be documented in this Agreement wording.

However, any previously agreed Special Acceptances will be renegotiated prior to each individual policy renewal date.

6. Territorial Scope:

Risk situated in Nigeria and Nigerian interest abroad and incidental Nigerian risks Worldwide subject to prior referral to the Leading Reinsurer, but excluding risks situated in USA and Canada.

Incidental shall mean anywhere in Africa for 100%, but for the rest of the World

not exceeding 20% of the Treaty Maximum Reinsurance Cession defined under section 8. Treaty Limit hereafter.

7. Currency:

Contract currency: Nigerian Naira (NGN).

Settlement currency: US Dollar or any other currency equivalent at the rate of exchange ruling as at the Due Date.

8. Treaty Limit and Deductible:

First Layer:

To pay up to a limit of NGN 10,000,000 ultimate net loss any one loss occurrence

IN EXCESS OF

Deductible of NGN 5,000,000 ultimate net loss any one loss occurrence.

Second Layer:

To pay up to a limit of NGN 35,000,000 ultimate net loss any one loss occurrence

IN EXCESS OF

Deductible of NGN 15,000,000 ultimate net loss any one loss occurrence.

Third Layer:

To pay up to a limit of NGN 100,000,000 ultimate net loss any one loss occurrence

IN EXCESS OF

Deductible of NGN 50,000,000 ultimate net loss any one loss occurrence.

Fourth Layer:

To pay up to a limit of NGN 350,000,000 ultimate net loss any one loss occurrence

IN EXCESS OF

Deductible of NGN 150,000,000 ultimate net loss any one loss occurrence.

Two Risks Warranty:

It is warranted that no claims shall be payable under this Agreement unless two or more original risks covered by the Reinsured are involved in each loss occurrence.

9. Reinstatement:

First Layer:

One full reinstatement at 100% Additional Premium as to time, pro rata to amount of indemnity only on the final adjusted premium hereon.
(Reinstatement Premium shall be calculated at pro rata of the annual premium as respects the fraction of indemnity exhausted regardless of the unexpired term of this Agreement).

Limit in all: NGN 20,000,000.

Second Layer:

One full reinstatement at 100% Additional Premium as to time, pro rata to amount of indemnity only on the final adjusted premium hereon.
(Reinstatement Premium shall be calculated at pro rata of the annual premium as respects the fraction of indemnity exhausted regardless of the unexpired term of this Agreement).

Limit in all: NGN 70,000,000.

Third Layer:

One full reinstatement at 100% Additional Premium as to time, pro rata to amount of indemnity only on the final adjusted premium hereon.
(Reinstatement Premium shall be calculated at pro rata of the annual premium as respects the fraction of indemnity exhausted regardless of the unexpired term of this Agreement).

Limit in all: NGN 200,000,000.

Fourth Layer:

One full reinstatement at 100% Additional Premium as to time, pro rata to amount of indemnity only on the final adjusted premium hereon.
(Reinstatement Premium shall be calculated at pro rata of the annual premium as respects the fraction of indemnity exhausted regardless of the unexpired term of this Agreement).

Limit in all: NGN 700,000,000.

10. Premium:

First Layer:

Adjustable within 60 days after expiry at 9.24% of the Reinsured's Original Gross Net Retained Premium Income accounted for in respect of business reinsured hereby during the period hereon, subject to a Minimum and Deposit Premium of NGN 2,577,960 payable in two equal instalments, half-yearly in advance at 1st January 2013 and 1st July 2013.

Second Layer:

Adjustable within 60 days after expiry at 5.33% of the Reinsured's Original Gross Net Retained Premium Income accounted for in respect of business reinsured hereby during the period hereon, subject to a Minimum and Deposit Premium of NGN 1,480,000 payable in two equal instalments, half-yearly in advance at 1st January 2032 and 1st July 2013.

Third Layer:

Adjustable within 60 days after expiry at 9.24% of the Reinsured's Original Gross Net Retained Premium Income accounted for in respect of business reinsured hereby during the period hereon, subject to a Minimum and Deposit Premium of NGN 2,577,960 payable in two equal instalments, half-yearly in advance at 1st January 2013 and 1st July 2013.

Fourth Layer:

Adjustable within 60 days after expiry at 5.33% of the Reinsured's Original Gross Net Retained Premium Income accounted for in respect of business reinsured hereby during the period hereon, subject to a Minimum and Deposit Premium of NGN 1,480,000 payable in two equal instalments, half-yearly in advance at 1st January 2013 and 1st July 2013.

The adjusting statement will be due 60 days after 31st December 2013 on a "cheque attached basis".

Definition Of Gross Net Retained Premium Income

The term «Gross Net Premium Income» shall be understood to mean gross premiums less only return premiums and cancellations and premiums paid for Reinsurance, recoveries under which inure to the benefit of the Reinsurers hereon.

11. Premium Warranty:

The premium must be paid to and in possession of Reinsurer within 45 days after the due date, failing which the cover shall be deemed to be lapsed as from the due date.

12. Late Payment Interest:

Interest at 110% of market prime lending rate on balances due from the due date to the date of payment.

13. Taxes and Deductions:

Nil

14. General Conditions:

All terms, conditions and clauses applicable to this Agreement, including those listed below, are more fully defined in the Contractual Wording.

1	This Agreement does not protect the surplus loss amounts exceeding the loss occurrence limitations in the underlying Proportional Treaties.
2	Reinsuring Clause
3	Period of Application Clause
4	Territorial Scope
5	Exclusions
6	Definition of Loss Occurrence.
7	Extended Expiration Clause.
8	Ultimate Net Loss Clause.
9	Net Retained Lines Clause.
7	Reinstatement Clause.
8	Premium Clause.
9	Currency Conversion Clause.
10	Taxes and Deductions
11	Claims Reporting (75% of deductible) and Settlement Clause
12	Offset Clause.
13	Underwriting Policy Clause.

14 Change in Law Clause.
15 Inadvertent Delay, Errors and Omissions Clause.
16 Self-Insurance Clause.
17 Incorrect or Incomplete Information Clause.
18 Inspection of Records Clause.
19 Modifications to Treaty Clause.
20 Special Cancellation Clause.
21 Insolvency Clause
22 Interpretation Clause.
23 Intermediary Clause.
24 Choice of Law and Jurisdiction Clause.
25 Arbitration Clause.
26 Sanctions Limitation and Exclusion Clause.
27 Several Liability Notice LSW 1001 (Reinsurance).

15. Special Conditions:

None other than may exist in this Agreement.

16. Warranties:

None other than may exist in this Agreement.

17. Intermediary:

The Intermediary for this Agreement is:
XYZ Reinsurance Brokers Limited,
Victoria Island,
Lagos, Nigeria

18. Brokerage:

10% (Nil on reinstatement)

19. Choice of Law and Jurisdiction:

It is agreed that this Reinsurance Agreement (including arbitration tribunals) shall be governed by the Laws of Nigeria and the Courts of Law in Nigeria will have sole jurisdictions in all matters relating to this Agreement.

As more fully defined within the Contractual Wording.

However no indemnity under this Agreement shall apply to compensation for damages in respect of judgments delivered or obtained by a court of competent jurisdiction within the U.S.A or Canada or any of their territories.

20. Seat of Arbitration:

The Seat of arbitration will be Lagos, Nigeria.

Appointor: The Secretary General for the time being of the Court of Arbitration of the International Chamber of Commerce.

If another Appointer has been agreed please amend.

21. Leading Reinsurer:

African Reinsurance Corporation, the "Reinsurer".

22. Wording:

Full contractual wording is incorporated.

This Slip Reinsurance Agreement details the Agreement terms entered into by the Reinsured and the Reinsurer and constitutes the full Reinsurance Agreement.

23. Acceptance:

African Reinsurance Corporation, signing hereon as follows:

First Layer:	**40.00% of 100%**
Second Layer:	**40.00% of 100%**
Third Layer:	**40.00% of 100%**

Information:

1 Underwriting Information and Statistics as per Information exhibit seen and noted by Reinsurer hereon

2 Maximum Retention per risk: (Sum Insured/Maximum Probable Loss) NGN 5,000,000 for material Damage and Consequential Loss Combined, (MPL Basis) in respect of all business other than residential.

Minimum Maximum Probable Loss 50%

3 Estimated Gross Net Retained Premium Income.
2012: NGN 30,000,000 (Revised)
2013: NGN 35,000,000 (Estimate)

CONTRACTUAL WORDING

ATTACHING TO AND FORMING PART OF FIRE AND ENGINEERING QUOTA SHARE AND SURPLUS SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAP/CATXL/...........

PREAMBLE

This Agreement is to reinsure a portion of the loss sustained by the Reinsured in respect of all business specified under «Class of Business» in the Contractual Details subject to any clauses, exclusions, special conditions and warranties applying to this Agreement.

Article 1: Reinsuring Clause

In consideration of the payment of premium as provided in the PREMIUM Article and subject to the other terms and conditions of this Agreement, the Reinsurer shall indemnify the Reinsured for that portion of the loss sustained by the Reinsured which exceeds the «Deductible» or “Priority” or “Retention” stated in the Contractual Details ultimate net loss any one loss occurrence.

The liability of the Reinsurer under this Agreement shall not exceed its agreed share of the «Limit» stated in the Contractual Details ultimate net loss in respect of any one loss occurrence subject to the Reinstatement Provisions.

Article 2: Period of Application Clause

This Agreement applies only to losses occurring during the period specified in the Contractual Details, both days inclusive Local Standard Time at the place where the loss occurs.

Article 3: Territorial Scope

The territorial scope of this Agreement is as specified in the Contractual Details.

Article 4: Exclusions

This Agreement shall not cover perils and risks specified in section 5 of the Contractual Details, subject to any special acceptances as defined herein.

Article 5: Definition of Loss Occurrence

The words «Loss Occurrence» shall mean any individual loss or all individual losses arising out of and directly occasioned by one catastrophe. However, the duration and extent of any «Loss Occurrence» so defined shall be limited to:

(a) 72 consecutive hours as regards hurricane, cyclone, typhoon, windstorm, rainstorm, hailstorm and/or tornado

(b) 72 consecutive hours as regards earthquake, seaquake, tidal wave and/or volcanic eruption

(c) 72 consecutive hours and within the limits of one City, Town or Village as regards riots, civil commotion and malicious damage

(d) 72 consecutive hours as regards any «Loss Occurrence» which includes individual loss or losses from any of the perils mentioned in (a), (b) and (c) above

(e) 168 consecutive hours for any «Loss Occurrence» of whatsoever nature which does not include individual loss or losses from any of the perils mentioned in (a), (b) and (c) above and no individual loss from whatever Insured peril, which occurs outside these periods or areas, shall be included in that «Loss Occurrence».

The Reinsured may choose the date and time when any such period of consecutive hours commences and if any catastrophe is of greater duration than the above periods, the Reinsured may divide that catastrophe into two or more «Loss Occurrences», provided no two periods overlap and provided no period commences earlier than the date and time of the happening of the first recorded individual loss to the Reinsured in that catastrophe.

Article 6: Extended Expiration Clause

If this Agreement should terminate or expire whilst a loss occurrence covered hereunder is in progress then the Reinsurer shall be responsible as if the entire loss or damage had occurred prior to the expiration or termination hereof provided that no part of that loss occurrence is claimed against any renewal or replacement of this Agreement.

Article 7: Ultimate Net Loss Clause

The term «Ultimate Net Loss» shall mean the sum actually paid by the Reinsured in settlement of any one loss any one risk or any one loss occurrence including litigation and other expenses incurred by the Reinsured in connection with the adjustment thereof excluding office expenses and salaries of the Reinsured and after deduction of all salvages and recoveries including recoveries from all other reinsurances inuring for the benefit hereof whether collected or not.

All salvages, recoveries or payments recovered or received subsequent to a loss settlement under this Agreement shall be applied as if recovered or received prior to the aforesaid settlement and all necessary adjustments shall be made by the parties hereto. Provided always that nothing in this clause shall be construed to mean that losses under this Agreement are not recoverable until the Reinsured's Ultimate Net Loss has been ascertained.

Notwithstanding anything contained herein to the contrary, it is agreed that recoveries under any Underlying Reinsurance effected by the Reinsured are for the sole benefit of the Reinsured and shall not be taken into account in computing the Ultimate Net Loss or Losses in excess of which this Agreement attaches nor in any way prejudice the Reinsured's right of recovery hereunder.

It is agreed that this Agreement does not protect the surplus loss amounts exceeding the loss occurrence limitations in the underlying proportional treaties.

Article 8: Net Retained Lines Clause

This Agreement applies only to that portion of business which the Reinsured, acting in accordance with its established practices at the commencement of this Agreement, retain net for their own account, and in calculating the amount of any loss hereunder and also in computing the amount or amounts in excess of which this Agreement attaches, only loss or losses in respect of that portion of business which the Reinsured retains net for its own account shall be included other than reinsurances referred to under the Ultimate Net Loss Clause.

The Reinsurer's liability hereunder shall not be increased due to an error or omission which results in an increase in the Reinsured's normal net retention nor by the Reinsured's failure to reinsure in accordance with its normal practice, nor by reason of the inability of the Reinsured to collect from any other Reinsurers, whether specific or general, any amounts which may have become due from them, whether such inability arises from the insolvency of such other Reinsurers or otherwise.

Article 9: Reinstatement Clause (applicable separately in respect of each layer hereon)

In the event of the whole or any portion of the indemnity provided under this Agreement being exhausted, the amount so exhausted shall be automatically reinstated from the time of the loss occurrence to the expiry of this Agreement subject to payment of an additional premium calculated on the basis stated under REINSTATEMENTS in the Contractual Details. Such additional premium to be paid at the time the loss settlement is made.

Nevertheless, the Reinsurer's liability shall not exceed the limit of this Agreement as specified in the Contractual Details of this Agreement with respect to any one loss occurrence nor more than the amount as specified in the

Contractual Details of this Agreement under REINSTATEMENTS (Limit in all) with respect to all losses arising during the term of the Agreement.

If a loss settlement that gives rise to reinstatement is made prior to the adjustment of the Minimum and Deposit Premium the reinstatement premium shall be provisionally calculated on such Minimum and Deposit Premium, and adjusted when the final adjusted premium figures are available.

Losses shall be considered in date order of their occurrence.

Article 10: Premium Clause (Applicable separately in respect of each layer hereon)

10.1 Premium

The Reinsured shall pay to the Reinsurer the Minimum and Deposit Premium in the manner specified in the Contractual Details.

10.2 Premium Adjustment

If applicable, as soon as possible after expiry of this Agreement but nevertheless not later than the period specified in the Contractual Details, the Deposit Premium as stated in the Contractual Details shall be adjusted to an amount equal to the rate specified in the Contractual Details applied to the Reinsured's declared premium income (as defined hereunder), subject however, to a final adjusted premium of not less than the Minimum Premium or the currency equivalent specified in the Contractual Details, the balances due shall be calculated and paid accordingly. In the event that the Minimum and Deposit premium is not exceeded then there shall be no further adjustment of premium hereunder.

10.3 Gross Net Retained Premium Income

The term Gross Net Retained Premium Income shall mean the Gross Premium accounted for by the Reinsured on business protected hereunder during the period of the Agreement less only return premiums and premiums paid for reinsurances, recoveries under which inure to the benefit hereof.

10.4 Payment of Premium

It is warranted that if any amount payable in terms of this Agreement is outstanding after the date on which payment is due, then cover shall lapse hereunder from the due date.

10.5 Late Payment

Any amounts outstanding after the due date on which settlement is due shall be subject to the payment of interest by the debtor party to the creditor party at the rate stated in the Contractual Details. Late payment Interest shall be calculated on the amount due from the due date to the actual date of payment.

The Debtor party shall bear the Creditor party's loss through currency fluctuation.

Article 11: Currency Conversion Clause

11.1 Currency

The Contract and settlement currencies are specified in the Contractual Details.

11.2 Rates of Exchange

For the purpose of this Agreement currencies other than the currency in which this Agreement is written shall be converted into such currency at the rate of exchange used in the Reinsured's books. Where there is a specific remittance for a loss settlement, the conversion will be at the rate of exchange ruling on the date upon which settlement is effected.

11.3 Additional Charges

All additional charges incurred or to be incurred, including but not limited to bank charges in respect of any payment made after the due date shall be for the account of the Debtor party at the rate prevailing at the due date.

Article 12: Taxes and Deductions from Reinsurance Premium

Taxes and deductions from Reinsurance premium, if any, are as specified in the Contractual Details.

Article 13: Claims Reporting and settlement Clause

13.1 Claims Notification

The Reinsured shall as soon as practicable advise the Reinsurer in writing of any circumstance occurring during the currency of this Agreement which would result in a claim exceeding

75% (seventy five per cent) of the Reinsured's deductible and thereafter keep the Reinsurer fully informed of any developments regarding the claim or claims hereunder.

13.2 Claims Co-operation Clause

Whenever a claim or claims arising out of one accident appears likely to exceed the retention or priority or deductible limit stated in the Contractual Details, the course of action to be adopted in connection with the defence or settlement of such claim or claims shall be determined by agreement between the Reinsured and the Reinsurer or the representative of the Reinsurer. The Reinsured shall not without the consent of the Reinsurer or the representative of the Reinsurer litigate any such claim or claims.

Compliance with the terms of this clause shall be a condition precedent to the Reinsurer's liability in respect of any claim under this Agreement.

13.3 Loss Settlement Clause

All loss settlements made by the Reinsured, provided same are within the terms of the original policies and/or contracts and within the terms of this Agreement, shall be unconditionally binding upon the Reinsurer and amounts falling to the share of the Reinsurer shall be payable by them upon reasonable evidence of the amount paid being given by the Reinsured.

13.4 Unsettled Claims Clause.

In respect of the unsettled claims the Reinsured shall supply the Reinsurer as at the end of each quarter with the estimated amount from the ground up of the unsettled claims.

The information to be supplied by the Reinsured shall, in addition to the estimated amount aforementioned, include the Insured's name and date of loss.

This information shall be forwarded to the Reinsurer no later than six weeks from the end of the quarter.

Following cancellation of this Agreement the information above shall be so forwarded to the Reinsurer until all liability under this Agreement shall have been discharged.

Article 14: Offset Clause

Any confirmed balances due by either of the parties to this Agreement, whether they arise out of this Agreement or out of other insurance/reinsurance business relationship between the parties, may be set-off against confirmed balances of the other party. This right shall continue to exist after the termination of this Agreement or of any other insurance/reinsurance business relationship between the parties.

If bankruptcy or liquidation proceedings are initiated in respect of either of the parties to this Agreement, the other party may set off all amounts owing to it, whether they arise out of this Agreement or out of any other insurance/reinsurance business relationship between the parties, against all the amounts due or not yet due for payment by it, whether these arise out of this Agreement or out of any other insurance/reinsurance business relationship between the parties. The same right may be exercised by any party to this Agreement that exercises its right of special termination for any other reason indicated in this Agreement.

Where the Reinsurer has set up a deposit, it may, in the event of bankruptcy or liquidation proceedings being initiated against the Reinsured or in the event of special termination, exercise its rights in respect of the deposit or arising out of the deposit agreement wholly or in part as if they were immediately due debts of the Reinsured, and may set off such debts against any amounts payable to the Reinsured. To the extent that the Reinsurer exercises its right of set-off, it shall waive any rights accorded to it by the deposit agreement.

Article 15: Underwriting Policy Clause

It is a condition precedent to the Reinsurer's liability hereunder that the Reinsured shall not introduce at any time after the Reinsured enters into this Agreement any change in its established acceptance and underwriting policy which may increase or extend the liability or exposure of the Reinsurer hereunder in respect of the classes of business to which this Agreement applies without the prior written approval of the Reinsurer.

Article 16: Change in Law Clause.

In the event of any change in the law by which the Reinsurer's liability hereunder is materially increased, or extended, the parties hereto agree to take up for immediate discussion, a suitable revision in the terms of this Agreement. In the event of failure to agree upon a suitable revision, this Agreement shall operate from the effective date of the change of law as if the change had not occurred, or upon its termination the Reinsurer's liability will not be increased or extended by any change of law affecting this Agreement, which has not been agreed to by the Reinsurer.

Article 17: Inadvertent Delay, Errors and Omissions Clause

Any inadvertent delay, error or omission on the part of either the Reinsured or the Reinsurer shall not relieve the other party from any liability which would have attached to this Agreement, provided that such error or omission is rectified immediately upon discovery and shall not impose any greater liability on the Reinsured or the Reinsurer than would have attached had the error or omission not occurred.

Article 18: Self-Insurance Clause

In respect of self-insurance which may be effected by the Reinsured, the liability of the Reinsurer shall be determined without regard to the legal principle that a person, company or corporation cannot be liable to itself.

Article 19: Incorrect or Incomplete Information Clause

The terms of this Agreement are based on the information supplied by the Reinsured to the Reinsurer prior to the conclusion of this Agreement.

Should the Reinsured have supplied the Reinsurer with information which it knew or should have known to be incorrect or incomplete, this Agreement shall be affected as follows: if the Reinsurer, in possession of the true facts, would have declined to provide Reinsurance, this Agreement shall be void. If the Reinsurer, in possession of the true facts, would have provided Reinsurance but under less advantageous terms, this Agreement shall be modified accordingly with effect from the commencement of this Agreement.

The Reinsurer, if in possession of the true facts, will be deemed to have acted as reasonable Reinsurer would have acted under the same circumstances, unless the Reinsured is able to show otherwise.

Article 20: Inspection of Records Clause

The Reinsured shall, upon request by the Reinsurer, make available at the Reinsured's head office or wherever the same may be located, for inspection at any reasonable time by such representatives as may be authorised by the Reinsurer for that purpose, all information relating to business reinsured hereunder in the Reinsured's possession or under its control and the said representatives may arrange for copies to be made at the Reinsurer's expenses of any of the records containing such information as they may require.

It is agreed that the Reinsurer's right of inspection shall continue as long as either party has a claim against the other arising out of this Agreement.

Article 21: Modification to Treaty Clause

Any mutually agreed modification of the terms and conditions of this Agreement, whether by Addendum or correspondence, shall be deemed to be binding upon the parties hereto, and to form an integral part of this Agreement.

Article 22: Special Cancellation Clause

1. Either party shall have the right to terminate this Agreement immediately by giving the other party notice:-

(a) if the performance of the whole or any part of this Agreement be prohibited or rendered impossible de jure or de facto in particular and without prejudice to the generality of the preceding words in consequence of any law or regulation which is or shall be in force in any country or territory or if any law or regulation shall prevent directly or indirectly the remittance of any or all or any part of the balance of payments due to or from either party;

(b) if the other party has become insolvent or unable to pay its debts or has lost the whole or any part of its paid up capital or has any authority to transact any class of business withdrawn, suspended or made conditional;

(c) if there is any material change in the ownership, management or control of the other party;

(d) if the country or territory in which the other party resides or has its head office or is incorporated shall be involved in armed hostilities with any other country whether war be declared or not or is partly or wholly occupied by another power;

(e) if the other party shall have failed to comply with any of the terms and conditions of this Agreement.

2. After the date of any such termination the liability of the reinsurer hereunder shall cease outright other than in respect of individual insured losses which have occurred prior thereto. Liability for losses in progress at the date of termination shall be dealt with in accordance with the Extended Expiration Clause.

3. All notices of termination in accordance with any of the provisions of this Clause shall be given in writing by Registered Letter, Telex, Telegram, Facsimile or any other permanent means of instantaneous communication and shall be deemed to be served upon dispatch or where communications between the parties are interrupted upon attempted dispatch.

4. All notices of termination served in accordance with any of the provisions of this Agreement shall be addressed to the party concerned at its head office or at any other address previously designated by that party.

5. In the event of termination in accordance with the Special cancellation provision above the exact premium payable hereunder shall be calculated upon the Gross Net Premium Income of the Reinsured up to the date of termination or pro rata temporis of the Minimum Premium, whichever is the greater.

6. Following the termination, the Reinsured may commute any or all of the outstanding liabilities under this Agreement, subject always to the Reinsurer's agreement and any predecessor Agreement. In the event the Reinsured and the Reinsurers do not agree to a mutually acceptable commutation, the parties respective rights and obligations shall continue as set forth in this Agreement

Article 23: Insolvency Clause

1. Where an insolvency event occurs in relation to a reinsured the following terms shall apply (and, in the

event of any inconsistency between these terms and any other terms of the Agreement, these terms shall prevail):

1.1 Notwithstanding any requirement in this Agreement that a Reinsured shall actually make payment in discharge of its liability to its policyholder before becoming entitled to payment from the Reinsurer:

1.1.1 the Reinsurer shall be liable to pay the Reinsured even though the Reinsured is unable to actually pay, or to discharge its liability to, its policyholder; but

1.1.2 nothing in this clause shall operate to accelerate the date for payment by the Reinsurer of any sum which may be payable to the Reinsured, which sum shall only become payable as and when the Reinsured would have discharged, by actual payment, its liability for its current net loss but for it being the subject of an insolvency event.

1.2 The existence, quantum, valuation and date for payment of any sums which the Reinsurer is liable to pay the reinsured under this Agreement shall be those and only those for which the Reinsurer would be liable to the Reinsured if the liability of the Reinsured had been determined without reference to any term in any composition or scheme of arrangement, entered into between the reinsured and all or any part of its policyholders unless and until the Reinsurer serves written notice to the contrary on the Reinsured in relation to any composition or scheme of arrangement.

1.3 The Reinsurer shall be entitled (but not obliged) to off-set, against any sum which it may be liable to pay the reinsured, any sum for which the reinsured is liable to pay the Reinsurer.

2. An insolvency event shall occur if:

2.1 (in relation to 1.1, 1.2 and 1.3 above) a winding up petition is presented in respect of the Reinsured or a provisional liquidator is appointed over it or if the Reinsured goes into administration, administrative receivership or receivership or if the Reinsured has a scheme of arrangement proposed in relation to all or any parts of its affairs; or

2.2 (in relation to 1.1 above) if the Reinsured goes into compulsory or voluntary liquidation;

2.3 or, in each case, if the Reinsured becomes subject to any other similar insolvency process (whether under the laws of England and Wales or elsewhere) and

2.4 the Reinsured is unable to pay its debts as and when they fall due within the meaning of section 123 of the Insolvency Act 1986 (or any statutory amendment or re-enactment of that section) or any equivalent provision under the Law specified under the Choice of Law and Jurisdiction section of the Contractual Details.

Article 24: Intermediary Clause

24.1 Intermediary

The intermediary named in the Contractual Details is hereby recognised as the intermediary negotiating this Agreement for all business hereunder.

24.2 Communications

All communications (including but not limited to notices, statements, premiums, return premiums, commissions, taxes, losses, loss adjustments, expenses, salvages and loss settlements) relating thereto shall be transmitted to the Reinsured or the Reinsurer through the named intermediary, subject to the provision of Article 22 (Special Cancellation Clause) hereunder.

24.3 Payments

(a) Payments by the Reinsurer to the Intermediary for the account of the Reinsured shall be deemed to constitute payment to the Reinsured for the purpose of discharging the Reinsurer's liability hereunder.

(b) Payments by the Reinsured through the Intermediary shall only constitute payment to the Reinsurer when and to the extent that such payments are actually received by the Reinsurer.

Article 25: Interpretation Clause

The terms of this Agreement shall be construed in accordance with recognised reinsurance practice rather than being given a strictly literal or legal interpretation.

Article 26: Choice of Law and Jurisdiction Clause

This Agreement (including Arbitration Tribunals) shall be governed by the Law of the Country specified in the Contractual Details whose Courts shall have exclusive or final jurisdiction in any dispute, doubt or question arising hereunder and in the event of any action, claim or demand by any claimant under or by virtue of the original insurance, the liability of the Reinsurer to indemnify the Reinsured in such event shall be limited to judgements delivered or obtained by a Court of competent jurisdiction within the Country specified in the Contractual Details

Article 27: Arbitration Clause

All matters in difference between the Reinsured and the Reinsurer (hereinafter referred to as "the parties") in connection with this Agreement including its formation and validity and whether arising during or after the period of this Agreement shall be referred to an arbitration tribunal in the manner hereinafter set out.

Unless the parties agree upon a single arbitrator within thirty days of one receiving a written request from the other for arbitration, the claimant (the party, requesting arbitration) shall appoint one arbitrator and give written notice thereof to the respondent.

Within thirty days of receiving such notice, the respondent shall appoint a second arbitrator and give written notice thereof to the claimant, failing which the claimant may apply to the appointor hereinafter named to appoint the second arbitrator.

Before they enter upon a reference the two arbitrators shall appoint a third arbitrator. Should they fail to appoint such a third arbitrator within thirty days of the appointment of the second arbitrator then either of them or either of the parties may apply to the appointor for the appointment of the third arbitrator. The three arbitrators shall decide by majority. If no majority can be reached, the verdict of the third arbitrator shall prevail. He shall also act as Chairman of the Arbitration Tribunal.

Unless the parties otherwise agree, the arbitration tribunal shall consist of persons (including those who have retired) with not less than ten years' experience of insurance or reinsurance as persons engaged in the business itself or advising such business in a professional capacity.

The arbitration tribunal shall, so far as it is permissible under the law and practice of the seat of arbitration, have power to fix all procedural rules for the holding of the arbitration, including discretionary power to make orders as to any matters which it may consider proper in the circumstances of the case with regard to pleadings, discovery, inspection of the documents, examination of witnesses and any other matter whatsoever relating to the conduct of the arbitration, and may receive and act upon such evidence, whether oral or written, strictly admissible or not, as it shall at its discretion think fit.

The appointor shall be as specified in the Contractual Details or if he is unavailable or it is inappropriate for him to act for any reason, such person as may be nominated by the Committee of that body. If for any reason such persons decline or are unable to act then the appointor shall be the judge of the appropriate Courts having jurisdiction at the seat of Arbitration.

All costs of the arbitration shall be at the discretion of the arbitration tribunal who may direct to and by whom and in what manner they shall be paid.

The seat of the arbitration shall be in the place specified in the Contractual Details and the law applicable to both the aforesaid Agreement and this arbitration Agreement shall be the law of that country.

A reasoned award of the arbitration tribunal shall be issued to the parties in writing and shall be final and binding upon the parties who convenant to carry out the same. If either of the parties should fail to carry out the award, the other may apply for its enforcement to a court of competent jurisdiction in any territory in which the party in default is domiciled or has assets or carries on business.

It is understood and agreed that this arbitration agreement shall be construed as a separate and independent contract between the parties hereto and arbitration hereunder shall be a condition precedent to the commencement of any action at law.

Article 28: Sanctions Limitation and Exclusion Clause

No (re)insurer shall be deemed to provide cover and no (re)insurer shall be liable to pay any claim or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose that (re)insurer to any sanction, prohibition or restriction under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom, United States of America or African Union.

Article 29: Several Liability Notice LSW 1001 (Reinsurance)

In case there are other subscribing Reinsurers to this Agreement, the subscribing Reinsurers' obligations under this Agreement and/or any other contracts of reinsurance to which they subscribe are several and not joint and are limited solely to their individual subscriptions.
The subscribing Reinsurers are not responsible for the subscription of any co-subscribing reinsurer who for any reason does not satisfy all or part of its obligations.

IN WITNESS WHEREOF, this Agreement has been signed in two originals for and on behalf of both the contracting parties, as hereafter:

In this day of 20..
For and on behalf of the Reinsurer

In this day of 20..
For and on behalf of the Reinsured

APPENDIX NO. 1

EXCLUSIONS ATTACHING TO AND FORMING PART OF FIRE AND ALLIED PERILS CATASTROPHE EXCESS OF LOSSSLIP REINSURANCE AGREEMENT NUMBER: ARC/FAP/CatXL/

APPENDIX NO. 1.1

War and Civil War, Political Risk and Terrorism

The following shall be excluded from this Agreement:

Any loss or damage occasioned by or through or in consequence, directly or indirectly, of any of the following occurrences, namely:

7 War, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not), civil war.

8 Abandonment and/or permanent or temporary dispossession resulting from detention, confiscation, seizure, restraint, commandeering, nationalisation, appropriation, destruction or requisition by order of any government de jure or de facto or by any public authority.

9 Mutiny, civil commotion, military rising, insurrection, rebellion, revolution, military or usurped power, martial law or state of siege or any of the events or causes which determine the proclamation or maintenance of martial law or state of siege.

10 Any act, including but not limited to labour disturbance, lock-out, riot or strike, which is calculated or directed to bring about loss or damage in order to further any political aim, objective or cause, or to bring about any social or economic change, or in protest against any State or Government, or any political or local authority, or for the purpose of imposing fear in the public or any section thereof.

11 The act of any lawfully established authority in controlling, preventing, suppressing or in any other way dealing with any occurrence referred to in clauses 4 above.

12 Plundering, looting, war pillage in connection with civil commotion or any of the activities referred to in clause 4 above.

For the purposes of clauses 4, 5 and 6, any loss or damage occasioned directly by a labour disturbance, lock-out, riot or strike or in order to bring about any social or economic change which is not politically motivated as envisaged in clause 4 shall not be excluded.

In any action, suit or other proceeding where the Reinsurer alleges that by reason of these provisions any loss, damage, cost or expense is not covered by this Reinsurance Agreement, the burden of proving that such loss, damage, cost or expense is covered shall be upon the Reinsured.

Terrorism Exclusion Clause

Notwithstanding any provision to the contrary within this agreement or any endorsement thereto, this reinsurance agreement does not cover any liability, loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from, happening through or in connection with any act of terrorism, regardless of any other cause contributing concurrently or in any other sequence to the loss, damage, cost or expense.

For the purpose of this exclusion, terrorism means an act, including but not limited to the use of violence or force and/or the threat thereof, whether as an act harmful to human life or not, by any person or group(s) of person(s), whether acting alone or on behalf of, or in connection with any organisation(s) or government(s) or any person or body of persons, committed for political, religious, personal, ethnic or ideological reasons or purposes including any act committed with the intention to influence any government and/or for the purpose of inspiring fear in the public or any section thereof.

In any action, suit or other proceeding in which the Reinsurer alleges that by reason of this definition any loss, damage, cost or expense is not covered by this Reinsurance Agreement, the burden of proving that such loss, damage, cost, or expense is covered shall be upon the Reinsured.

APPENDIX NO. 1.2

Terrorism Clause For Contamination and Explosives

It is agreed that, regardless of any contributory causes, this reinsurance does not cover any loss, damage, cost or expense directly or indirectly arising out of

a) biological or chemical contamination
c) Missiles, bombs, grenades, explosives

due to any act of terrorism.

For the purpose of this endorsement an act of terrorism means an act, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological, or ethnic purposes or reasons including the intention to influence any government and/or to put the public, or any section of the public, in fear.

For the purpose of a) «contamination» means the contamination, poisoning, or prevention and/or limitation of the use of objects due to the effects of chemical and/or biological substances.

If the Reinsurer allege that by reason of this exclusion, any loss, damage, cost or expense is not covered by this reinsurance the burden of proving the contrary shall be upon the Reassured.

APPENDIX NO. 1.3

Nuclear Energy Risks Exclusion Clause NMA 1975A (Reinsurance) (1994) (World-wide excluding USA & Canada)

This Agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or Pools and/or Associations.

For all purposes of this Treaty Nuclear Energy Risks shall mean <u>all first and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of:</u>

(I) All **Property** on the site of a nuclear power station.

Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.

(II) All **Property** on any site (including but not limited to the sites referred to in (I) above) used or having been used for:

(c) The generation of nuclear energy; or
(b) The **Production, Use or Storage of Nuclear Material**.

(III) Any other **Property** eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.

(IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by **Nuclear Material.**

Except as undernoted, Nuclear Energy Risks shall not include:

(i) Any insurance or reinsurance in respect of the construction or erection or installation or replacement or repair or maintenance or decommissioning of **Property** as described in (I) to (III) above (including contractors' plant and equipment), and/or

(ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above;

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by **Nuclear Material.**

However, the above exemption shall not extend to:

(1) The provision of any insurance or reinsurance whatsoever in respect of:

(a) **Nuclear Material**;
(b) Any **Property** in the **High Radioactivity Zone or Area** of any **Nuclear Installation**

as from the introduction of Nuclear Material or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.

(2) The provision of any insurance or reinsurance for the undernoted perils:

- Fire, lightning, explosion;
- Earthquake;
- Aircraft and other aerial devices or articles dropped therefrom;
- Irradiation and radioactive contamination;
- Any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other **Property** not specified in (1) above which directly involves the **Production, Use or Storage of Nuclear Material** as from the introduction of **Nuclear Material** into such **Property**.

Definitions

"Nuclear Material" means:

(iii) Nuclear fuel, other than uranium and depleted uranium, capable of producing energy by self-sustaining chain process of nuclear fission outside a **Nuclear Reactor**, either alone or in combination with some other materials; and

(iv) **Radioactive Products or Waste.**

"**Radioactive Products or Waste**" means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilisation of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

"**Nuclear Installation**" means:

(iv) Any **Nuclear Reactor**;
(v) Any factory using nuclear fuel for the production of **Nuclear Material**, or any factory using nuclear fuel for the processing of **Nuclear Material,** including any factory using fuel for the reprocessing of irradiated nuclear fuel; and
(vi) Any facility where **Nuclear Material** is stored, other than storage incidental to the carriage of such material.

"**Nuclear Reactor**" means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without any additional source of neutrons.

"**Production, Use or Storage of Nuclear Material**" means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of **Nuclear Material**.

"**Property**" shall mean all land, building, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

"**High Radioactivity Zone or Area**" means:

> (iii) For nuclear power stations and **Nuclear Reactors**, the vessel or structure which immediately contains the core (including its support and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and
> (iv) For non-reactor **Nuclear Installations**, any area where the level of radioactivity requires the provision of a biological shield.

APPENDIX NO. 1.4

Radioactive Exclusion Clause

Unless specifically agreed for an insured loss involving nuclear material under determined circumstances, this Agreement does not cover loss, damage cost or expense of whatsoever nature directly or indirectly caused, resulting from or in connection with nuclear energy or radioactivity of any kind including but not limited to any of the following regardless of any other cause or event contributing concurrently or in any other sequence to the loss:

1. ionising radiations from or contamination by radioactivity from any nuclear fuel or from any nuclear waste or from the combustion of nuclear fuel.

2. the radioactive, toxic, explosive or other hazardous or contamination properties of any nuclear installation, reactor or other nuclear assembly or nuclear component thereof.

3. any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter.

APPENDIX NO. 1.5

Nuclear Causes Clause

This Treaty does not cover legal liability, loss (including consequential loss), damage, cost or expense caused directly or indirectly by any of the following regardless of any other cause or event contributing concurrently or in any other sequence to the loss:

Nuclear material; nuclear fission or fusion; nuclear radiation; nuclear waste from the use of nuclear fuels or nuclear explosives or any nuclear weapon.
Definitions:

Nuclear material as defined in NMA 1975.

Nuclear fission means a nuclear reaction in which a heavy nucleus splits spontaneously or on impact with other particle with the release of energy.

Nuclear fusion means a nuclear reaction in which atomic nuclei of low atomic number fuse to form a heavier nucleus with the release of energy.

Nuclear radiation means the absorption of electro-magnetic radiation by a nucleus having a magnetic moment when in an external magnetic field.

Nuclear waste as defined in NMA 1975.

Nuclear fuels means a substance that will sustain a fission chain reaction so that it can be used as a source of nuclear energy.

Nuclear explosives means an explosive involving the release of energy by nuclear fission or fusion or both.

Nuclear weapon means a nuclear device designed, used or usable for inflicting bodily harm or property damage.

APPENDIX NO. 1.6

Computer Loss General Exclusion

General Exclusion applicable to this Agreement insuring damage to property or the consequences of damage to property or any liability

Notwithstanding any provision of this Agreement including any special exclusion, exception or extension or other provision not included herein which would otherwise override a general exclusion, this Agreement does not cover:

a) loss or destruction of or damage to any property whatsoever (including a computer) or any loss or expense whatsoever resulting or arising therefrom;

b) any legal liability of whatsoever nature;

c) any consequential loss;

directly or indirectly caused by or contributed to by or consisting of or arising from the incapacity or failure of any computer, correctly or at all

i) to treat any date as the correct date or true calendar date, or correctly or appropriately to recognise, manipulate, interpret, process, store, receive or to respond to any data or information, or to carry out any command or instruction, in regard to or in connection with any such date, or
ii) to capture, save, or to process any information or code as a result of the operation of any command which has been programmed into any computer, being a command which causes the loss of data or the inability to capture, save, retain or correctly to process such data in regard to or in connection with any such date, or

iii) to capture, save, retain or to process any information or code due to programme errors, incorrect entry or the inadvertent cancellation or corruption of data and/or programmes, or

iv) to capture, save, retain or to process any data as a result of the action of any computer virus, or other corrupting, harmful or otherwise unauthorised code or instruction including any Trojan horse, time or logic bomb or worm or any other destructive or disruptive code, media or programme or interference.

A computer includes any computer, data processing equipment, microchip, integrated circuit or similar device in computer or non-computer equipment or any computer software, tools, operating system or any computer hardware or peripherals and the information or data electronically or otherwise stored in or on any of the above, whether the property of the insured or not.

Special Extension to the above General Exclusion

A Loss or destruction of or damage to the insured property by fire, explosion, lightning, earthquake or by the special perils referred to in B below or indemnified by a Glass, Employer's Liability, Stated Benefits, Group Personal Accident or Motor policy shall not excluded by this General Exclusion.

B The special perils that are not excluded for the purpose of this special extension are damage caused by:

1. storm, wind, water, hail or snow excluding damage to property

a) arising from its undergoing any process necessarily involving the use or application of water;
b) caused by tidal wave originating from earthquake or volcanic eruption;
c)* in the underground workings of any mine;
d)* in the open (other than buildings structures and plant designed to exist or operate in the open);
e)* in any structure not completely roofed;
f)* being retaining walls;
*for c), d), e) and f) unless so described and specifically insured as a separated item

2. aircraft and other aerial devices or articles dropped therefrom;

3. impact by animals, trees, aerials, satellite dishes or vehicles excluding damage to such animals, trees, aerials, satellite dishes or vehicles or property in or on such vehicles.

These special perils do not cover wear and tear or gradual deterioration.

C The above General Exclusion also does not apply to consequential loss as insured by any Business Interruption indemnity provided by this Treaty to the extent that such consequential loss results from damage to insured property by the perils referred to A above.

D This Special Extension will not insure any loss destruction, damage or consequential loss if it would not have been insured in the absence of this Computer Losses General Exclusion and this Special Extension.

E This Special Extension shall not apply to any Public Liability indemnity.

APPENDIX NO. 1.7

Electronic Date Recognition Clause EDRC (B)

Section 1

This reinsurance does not cover any loss, damage, cost, claim or expense, whether preventative, remedial or otherwise, directly or indirectly arising out of or relating to:

c) the calculation, comparison, differentiation, sequencing or processing of data involving the date change to the year 2000, or any other date change, including leap year calculations by any computer system, hardware, programme or software and/or any microchip, integrated circuit or similar device in computer equipment or non-computer equipment, whether the property of the insured or not; or

d) any change, alteration or modification involving the date change to the year 2000 or any other date change, including leap year calculations, to any such computer system, hardware, programme or software or any microchip, integrated circuit or similar device in computer equipment or non-computer equipment, whether the property of the insured or not.

This clause applies regardless of any other cause or event that contributes concurrently or in any sequence to the loss, damage, cost, claim or expense.

However, this section shall not apply in respect of physical damage occurring at the insured's premises arising out of the perils of fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, hurricane, cyclone, riot, strike, civil commotion, vandalism, malicious mischief, earthquake, volcano, tsunami, freeze or weight of snow.

Section 2

Notwithstanding Section 1 above, this reinsurance does not cover any costs and expenses, whether preventative, remedial or otherwise, arising out of or relating to change, alteration or modification of any computer system, hardware, programme or software or any microchip, integrated circuit or similar device in computer or non-computer equipment, whether the property of the insured or not.

The date change to the year 2000, or any other date change, including leap year calculations, shall not in and of itself be regarded as an event for the purposes of this reinsurance.

APPENDIX NO. 1.8

Clarification Agreement

Property damage covered under this Treaty shall mean physical damage to the substance of property.

Physical damage to the substance of property shall not include damage to data or software, in particular any detrimental change in data, software or computer programmes that is caused by a deletion, a corruption or a deformation of the original structure.

Consequently, the following are excluded from this Treaty:

A Loss or damage to data or software, in particular any detrimental change in data, software or computer programmes that is caused by a deletion, a corruption or a deformation of the original structure, and any business interruption losses resulting from such loss or damage. Notwithstanding this exclusion, loss of or damage to data or software which is the direct consequence of insured physical damage to the substance of property, shall be covered.

B Loss or damage resulting from an impairment in the function, availability, range of use or accessibility of data, software or computer programmes, and any business interruption losses resulting from such loss or damage.

APPENDIX NO. 1.9

Institute Chemical, Biological, Bio-Chemical, Electromagnetic Weapons and Cyber Attack Exclusion Clause.

This clause shall be paramount and shall override anything contained in this Agreement inconsistent therewith.

In no case shall this Agreement cover loss, damage, liability or expense directly or indirectly caused by or contributed to by or arising from:

1 any chemical, biological, biochemical or electromagnetic weapon;

2 the use or operation, as a means for inflicting harm, of any computer, computer system, computer software programme, computer virus or process or any other electronic system.

APPENDIX NO. 1.10

Transmission and Distribution Lines Exclusion

All above ground transmission and distribution lines, including wires, cables, poles, pylons, standards, towers, other support structures and any equipment of any type which may be attendant to such installations of any description for the purpose of transmission and distribution of electric power, telephone or telegraph signals, and all communication signals whether audio or visual.

This exclusion applies to both above and below ground equipment which are more than150 meters (or 500 feet) from the insured structure.

This exclusion applies both to physical loss or damage to the equipment and all business interruption, consequential loss, and/or other contingent losses related to transmission and distribution lines.

It is understood and agreed that public utilities extension and/or suppliers extension and/or contingent business interruption coverages are not subject to this exclusion, provided that these are not part of a transmitters' or distributors' policy.

APPENDIX NO. 1.11

Pollution/Contamination Exclusion Clause

This Agreement excludes any loss arising from Pollution or Contamination except (unless otherwise excluded) destruction of or damage to the property insured caused by:

pollution or contamination which itself results from a peril reinsured against

any peril reinsured against which itself results from a pollution or contamination

This Treaty also excludes any liability in connection with disposed or dumped waste materials or substances.

APPENDIX NO. 1.12

Asbestos Exclusion Clause

It is hereby understood and agreed that this contract shall not apply to, and does not cover, any actual or alleged liability whatsoever for any claim or claims in respect of loss or losses directly or indirectly caused by, arising out of, resulting from, in consequence of, in any way involving, or to the extent contributed to by, the hazardous nature of asbestos in whatever form or quantity.

APPENDIX NO 2

ATTACHING TO AND FORMING PART OF FIRE AND ALLIED PERILS RISK EXCESS OF LOSS SLIP REINSURANCE AGREEMENT NUMBER: ARC/FAP/CatXL/

Supplementary Fire and Allied Perils Exclusion List

1. Obligatory Insurances and Reinsurances of any sort.
2. Excess of Loss Insurances and Reinsurances/Layered policies, Stop Loss or First Loss basis (First Loss exclusion is not applicable for Natural Perils and/or Burglary).
3. Liability arising from Insurance Loss Portfolio Transfers of any kind.
4. Pools and Pooling Arrangements.
5. Line Slips, Binding Authorities, Broker Covers and Captive Pools.
6. Advance Loss of profits.
7. All legal liabilities other than Owners/Occupiers Liability insured under House owners and/or Householders Combined and Office Comprehensive policies.
8. Policies issued or renewed for a period exceeding 12 months plus odd time provided that each insurance period does not exceed a maximum of 18 months.
9. Marine Hull and Cargo and all Consequential Loss resulting therefrom.
10. Inland Transit (other than for Fire and Allied Perils) and all Consequential Loss resulting therefrom.
11. Aviation Hull and Liabilities including Air Cargo, and all Consequential Loss resulting therefrom.
12. On and Offshore Oil and/or Gas Drilling and Production Rigs, including any Consequential Loss resulting therefrom.
13. Property insured under Motor Vehicle policies of any type.
14. Credit insurance of any kind; guarantees and bonds of any kind, including Financial Guarantees, Fidelity and Surety Bonds.
15. Hail on Growing Crops of all kinds including but not limited to agricultural and horticultural or when written as a peril separately and all business interruption resulting therefrom.
16. Comprehensive Crop Insurance (on crops of all kinds including but not limited to agricultural and horticultural), and all business interruption resulting therefrom.
17. On trees, shrubs and bushes of all types and consequential loss resulting therefrom
18. Money and all Consequential Loss resulting therefrom (other than money covered on a Fire and Allied Perils policy to be declared to Leading Underwriter (African Reinsurance Corporation) and approval obtained.
19. Accidental Damage and Business Interruption resulting therefrom other than under an Industrial/ Assets All Risks cover or Accidental Damage extension to the Fire policy, however, limited to 5% or US$100,000 equivalent in local currency maximum whichever is lower, of total sum insured per location, per policy unless declared and agreed by the Lead Underwriter (African Reinsurance Corporation).
20. Livestock and all Consequential Loss resulting therefrom (other than Livestock covered on a Fire and Allied Perils policy).
21. Business written with an aggregate excess which applies to Motor, Liability, Personal Accident, Marine and Aviation business unless agreed by the Leading Reinsurer.
22. Any form of mining risks.
23. Burglary (other than under Domestic combined policies).
24. Theft (other than under Office Comprehensive and Domestic policies).
25. Any exposures out of the USA and Canada.
26. Difference in Conditions policies or Difference in Limits policies.
27. Engineering, Contractors All Risks, Erection All Risks and Motor.
28. Customers and Suppliers extension of a Business Interruption section (or otherwise referred to as Contingent Business Interruption cover) which is:
    a) not on a named perils basis;
    b) named direct suppliers where the limit exceeds 20% of the Business Interruption Sum Insured or policy limit whichever is the lesser as stated in the underlying policy schedule, unless agreed by the Reinsurer;
    c) un-named direct suppliers where the limit exceeds 5% of the Business Interruption Sum Insured or policy limit whichever is the lesser as stated in the underlying policy schedule, unless agreed by the Reinsurer;

d) not triggered by damage from named perils occurring at the Customer and/or Suppliers' premises;
e)not separately evaluated in terms of accumulation exposure;
f) not individually rated, assessed and priced.

29. Stock Floater policies other than in respect of Fire and Allied Perils as defined under this Agreement and restricted to the insured premises as stated in the underlying policy schedule.
30. Ex gratia payments otherwise than with the prior consent of the Reinsurer only.
31. Business Interruption with an indemnity period exceeding 18 months.

Depending on the underlying proportional treaty or where there is no proportional treaty this should be considered and adjusted as required:

Inward Local facultative reinsurance and co-insurance if the amount ceded to the Treaty exceeds 50% of the Reinsured's Treaty limit.