A Study on Reinsurance Strategy

Recently, the financial authority has introduced 10 percent minimum retention ratio for general insurance contract at general insurance companies, asking for insurers to expand their retentions.

While reinsurance ceding is overseas conducted under strategic goals such as loss rate management, the Korean insurance company lacks experts in risk assessment and the responsibility and authority for reinsurance management are not clear, so a systematic reinsurance strategy is not established and implemented.

When looking at the reinsurance ceding of Korean non-life insurers in terms of loss rate volatility, it appears excessive, but it is difficult to say that it is excessive in terms of risk appetite. However, it is not clear whether auto insurance and long-term insurance are reinsurance under the company’s strategy, while fire insurance and marine insurance are under reinsurance under certain strategies.

In recent years, insurance companies have been raising the limit of reinsurance and reducing the ceding rate in order to reduce the cost of reinsurance to overcome the difficult business environment. This paper presents a method for calculating the optimal holding limit based on volatility, cost, or bankruptcy probability. Insurers should calculate optimal retention level and people in working and management will have to share the perception of reinsurance and make changes in the evaluation system for reinsurance together.