

REINSURANCE AND RETENTION

What Is Retention?

Retention refers to the amount of mortality risk on each life that an insurance company assumes. More specifically, it is the amount of risk retained by the company after allowing for any portion reinsured with other companies..

What is Reinsurance?

Reinsurance is a transaction, through which an insurance company transfers a portion of its risk to another company, called the reinsurer. Essentially, reinsurance is insurance for insurance companies. It is especially helpful where large face amounts are involved. The insurance company can issue large amounts to its customers and reinsure a portion with one or more reinsurers. Then, if a claim occurs, the insurance company is protected against a significant drain in capital.

What are Automatic Reinsurance and Facultative Reinsurance?

There are two main types of reinsurance. Through automatic reinsurance, the reinsurer automatically accepts a specific portion of the risk if the insurance company follows its underwriting rules and meets other requirements. There are limits on the amount of risk that can be transferred to a reinsurer under automatic reinsurance. When these limits are exceeded or when the policy does not meet all of the other requirements for automatic reinsurance, then the insurance company may apply to the reinsurer for facultative reinsurance. When this happens, the reinsurer will determine if it has the capacity to accept the amount of risk requested by the insurance company. In addition, the reinsurer will underwrite the risk to determine if it is acceptable.



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