NAMFISA
NAMIBIA FINANCIAL
INSTITUTIONS SUPERVISORY AUTHORITY

05 October 2012

To: Namibia Insurance Association (NIA),
Namibia Insurance Brokers Association (NIBA),

Dear Sir/ Madam

FACULTATIVE RE-INSURANCE, FACULTATIVE INSURANCE AND CO-INSURANCE

We refer to the industry meetings held on the 26 and 27 September 2012 regarding the above.

Section 2 (1) of the Short-term Insurance Act No.4 of 1998 (the Act) states that, no person shall, carry on short-term insurance business in Namibia unless such person is registered in terms of the Act. The entities in the short-term insurance industry are to carry out short-term insurance business in terms of the type of license approved by the Registrar.

Definitions:

Reinsurance business - means the business of insuring any insurer or reinsurer in respect of the insurer's or reinsurer's contractual obligations under any policy. (*Section 1 of the Act)*

Co- insurance - means the business whereby, in respect of any other class or classes of short-term insurance business, two or more-

(a) insurers each takes a direct share of any risk which is too large for any one insurer to carry itself; or

(b) reinsurers each takes a direct share of any risk which is too large for any one reinsurer to carry itself; (*Section 1of the Act*)

Facultative reinsurance - is a form of reinsurance in which a contract is negotiated for a specific insurance policy. This type of reinsurance is purchased when a policy is unusual or large and the original insurer is concerned about the liability risks. The policyholder is not informed that reinsurance has been taken out, in contrast with coinsurance, in which multiple insurers take on the risk of a policy together.

Facultative reinsurance is generally used for more complex insurance policies which may require special coverage. Large insurance policies are obvious candidates for facultative reinsurance. For the reinsurer, the advantage of such a policy is that it allows the company to develop a customized policy which will meet the needs of the specific

Tel: +264 61 290 5000, Fax: +264 61 290 5157, PO Box 21250, Windhoek, Namibia, 154 Independence Ave, Sanlam Centre, www.namfisa.com.na

situation, resulting in lower is exposure for the reinsurer as they have an opportunity to assess the individual risks and determine a rate for the reinsurance which they deem reasonable. (www.wisegeek.com)

Treaty reinsurance – is another form of reinsurance, in which a group of policies or risk categories are covered together. (www.wisegeek.com)

Therefore, should a company conduct reinsurance business as per the definitions above, such company should register with NAMFISA as a reinsurer, meeting all the requirements in terms of section 16 of the Act and should no longer operate as a pure insurance company. Insurance companies are not allowed to reinsure amongst themselves. Reinsurance should only be done with a registered reinsurer.

We trust that you find the above in order but should you require any additional information, please do not hesitate to contact Ms. C. Nakaziko at +264-061-2905126.

Yours sincerely,

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Brenda Esterhuyse
General Manager: Insurance Division