The Annual Aggregate Limit – Example

The following XL treaty is agreed between the PI and RI: 1,000 MU xs 500 MU, with an amount of 3,000 MU. The AAL represents therefore triple the set limit. If the following 7 single losses (L1-L7) now occur during one year, the following applies:

Loss No	L1	L2	L3	L4	L5	L6	L7	Total
Insured Loss	900	450	1,300	1,100	3,000	1,500	2,000	10,250
Liability 1,000MU	400	0	800	600	1,000	200	0	3,000
Retention 500MU	500	450	500	500	500	500	500	
Remaining AAL	2,000	2,000	1,800	1,200	200	0	0	

Example AAL in MU

It can be seen that for each loss whereby the RI's liability is applied, the AAL is reduced by this liability amount. In the case of the 6th loss only a remaining AAL of 200 MU is left over although the RI should pay its full liability of 1,000 MU for this loss of (1,500 MU). For the 7th loss therefore no more liability is available. The loss parts which are not covered by the RI, due to an exhausted AAL , therefore revert back to the PI and increase the PIs net loss burden for that financial year.

The fact that the liability is limited due to the agreed AAL should be reflected in the RI premium negotiations. This should be considered in relation to the PIs risk situation. Here applies the degree to which both parties are in agreement about how many losses with which maximum loss amounts can be incurred before an AAL is exhausted. This means is this portfolio for example loaded with many small losses or fewer but much higher losses? This must be investigated.