

EXAM 6 – CANADA, FALL 2012

33. (1 point)

Describe the requirements common to both GAAP and SAP for determining the existence of risk transfer in a reinsurance transaction.

CONTINUED ON NEXT PAGE

The reverse is true for the buyer. The same isolated data must now be added into the historic net database, since the buyer will experience loss development and IBNR and must forecast it within its reserving structure.

Actual candidate answer for full marks:

a) max point at which seller willing to pay to commute liabilities beyond which economics unattractive to seller

b) $AP = (AP - \text{tax basis reserve}) (\text{tax rate}) + \text{PV reserve}$

tax basis is = 95% min (Reptd, Net Claim Liab)]
= 95% (937 + 23)
= 912

$AP = (AP - 912) (40\%) + 937$
 $0.5 AP = 572.2$
 $AP = 953.67$

$(AP - 912) \times 90\%$

tax effect: -seller willing to pay tax on commutation plus PV res.
-taxes seller would have paid if not commuted

c) seller: remove all historical claims commuted from a database so that triangles not distorted
buyer: add all these claims to “ “ “ “ “ not distorted

Examiner’s report:

Students are generally weak in this question. Most candidates missed to mention that the commutation would become economically unattractive beyond the ambivalence point. Quite a number of candidates failed to demonstrate the concept of taking minimum of undiscounted unpaid liability and actuarial discount value in the calculation of tax basis reserves.

Question 33

Answer key:

The reinsurer assumes significant insurance risk under the reinsured portion of the underlying insurance agreement

It is reasonably possible that the reinsurer may realize a significant loss from the transaction.

Actual candidate answer for full marks:

- 1) Reinsurer assumes significant insurance risk under the reinsured portion of the contract
- 2) It is reasonably possible that the reinsurer will realize a significant loss
If 2) above is not met, insurance risk is transferred if reinsurer assumes substantially all of the risk under the reinsured portion of the contract

Examiner’s report:

Overall candidates did very well. Full marks were not given for just referring to the “10-10” rule.