24. (1.5 points)

Identify three potential risk limiting features of a reinsurance contract and briefly describe how each feature of the contract could affect the existence or extent of a risk transfer.

CONTINUED ON NEXT PAGE

EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION: 24

TOTAL POINT VALUE: 1.5

LEARNING OBJECTIVE(S): C1

SAMPLE/ACCEPTED ANSWERS:

Profit sharing

> The actuary would be careful when there is a pre-determined expectation of large profit sharing. Such an expectation might be indicative of insufficient risk transfer.
>
> Also, absence of a loss carry-forward provision (used in the determination of the refund amounts) might reflect an expectation of the reinsurer that the possibility of loss in any one accounting period is remote.
>
> And finally, negative experience refunds (i.e., the ceding company makes the assuming company whole for its losses) can negate risk transfer to the assuming company.

Adjustability of reinsurance premiums and/or commissions

> Adjustable commission on a proportional contract
>
> A swing rate on a non-proportional contract
>
> Limits or caps on loss ratios
>
> Loss corridor provisions on proportional contracts

Pre-set limits to timing of payments

> Some contract features which restrict the timing of payments may indicate an intention to limit risk transfer
>
> For example, some contracts may contain payment schedules or funds withheld provisions which may indicate such an intention

Expected duration of contract

> Commutation clauses

High front-end reinsurance commissions

Counterparties

EXAMINER'S REPORT:

General Commentary

- Candidates are expected to identify the reinsurance features that limit risk transfer and briefly describe the underlying rationale why such features results in limited risk transfer.
- Candidates performed well in identifying these features but were not able to describe the underlying rationales.