

EXAM 6 – CANADA, SPRING 2016

12. (1 point)

Identify two financial and two non-financial considerations associated with the future cash flows of a reinsurance commutation.

CONTINUED ON NEXT PAGE

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12	
TOTAL POINT VALUE: 1	LEARNING OBJECTIVE: C1
SAMPLE ANSWERS	
Acceptable solutions: Financial: <ul style="list-style-type: none">- Amount and timing- Discount rate- Cost of inflation- Potential for volatility in cash flows- Income tax- Cost of holding capital- Payment pattern Non-financial: <ul style="list-style-type: none">- Morbidity or mortality of the claimant(s)- Current and future entitlements of the claimant(s)- Unfavourable court decisions	
EXAMINER'S REPORT	
<ul style="list-style-type: none">• Candidates were expected to know key considerations given to a reinsurance commutation.• Most candidates seemed to be able to identify at least one of the financial considerations.• Some candidates put down more than two financial considerations.• A few candidates put down incentives/benefits of a commutation instead of considerations.	