

EXAM 6 – CANADA, SPRING 2017

18. (2 points)

a. (1 point)

Briefly describe two reasons for a reinsurer to commute a claim and two reasons for an insurer to commute a claim.

b. (1 point)

Claims subject to commutation have expected cash flows that extend into the future. Briefly describe two financial and two non-financial considerations associated with the future cash flows in the settlement of these claims.

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EXAM 6C SPRING 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 18	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE(S): C1
SAMPLE ANSWERS	
Part a: 1 point	
Any two from the following for each: i. reinsurer: <ul style="list-style-type: none">• Give stability in the report for long tails claim• free up capital to lower underwriting leverage• savings in claims adjusting and admin costs• wish to exit the market• required after wind-up ii. insurer: <ul style="list-style-type: none">• suspicious on the creditworthiness of the reinsurer• decrease expense cost• expect more favorable loss development than planned• more efficient to handle claims themselves• receive a cash flow right away	
Part b: 1 point	
Any two from the following for each: i. financial <ul style="list-style-type: none">• amount and timing of cash flows or payment pattern• discount rate used• cost inflation• potential for volatility in cash flows• income tax• credit risk• claim development• mismatch between assets and liabilities• cost of capital ii. non-financial <ul style="list-style-type: none">• mortality of the claimants• current and future entitlements of the claimants or latent claims• unfavorable court decisions• legal environment change• tort reform	

EXAM 6C SPRING 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT
Candidates were expected to demonstrate knowledge of reinsurance commutations.
Part a
Candidates were expected to describe reasons to commute from both an insurer's and a reinsurer's perspective. A common error was reversing the reasons to commute between insurer and reinsurer.
Part b
Candidates were expected to describe considerations associated with future cash flows of a commutation. Common errors include: <ul style="list-style-type: none">• Not providing answers to the non-financial portion of the question.• Providing financial considerations as non-financial considerations.