

EXAM 6 – CANADA, FALL 2019

28. (1.25 points)

a. (0.5 point)

Describe an approach that could be used to calculate the discount rate for net claim liabilities.

b. (0.75 point)

Identify three possible discount rates to calculate the present value of policy liabilities ceded to reinsurers.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 28	
TOTAL POINT VALUE: 1.25	LEARNING OBJECTIVE(S): D1
SAMPLE ANSWERS	
Part a: 0.5 point	
<u>Sample 1</u> Could use the portfolio yield rate which represents the IRR such that PV (all CFs) is equal to book value currently of portfolio	
<u>Sample 2</u> Use the weighted average of effective yield of bonds/shares where the weights = book value * modified or effective duration	
Part b: 0.75 point	
<u>Sample</u> <ul style="list-style-type: none">• Risk-free rate• Discount rate used by assuming company• Discount rate used for <u>net</u> policy liabilities	
EXAMINER'S REPORT	
Candidates were expected to demonstrate general knowledge about discounting net claim and policy liabilities ceded to reinsurers.	
Part a	
Candidates were expected to describe one approach to calculate the discount rate for net claim liabilities. A common error included: <ul style="list-style-type: none">• Simply stating "portfolio yield rate" without giving any further description of the method	
Part b	
Candidates were expected to identify various acceptable ways to select the discount rate for ceded policy liabilities. A common error included: <ul style="list-style-type: none">• Stating the discount rate selected for calculating gross policy liabilities could be used instead of that for net policy liabilities	