17. (3 points)

A primary insurer is seeking reinsurance recoverables from three reinsurers (all figures are in millions of dollars):

Reinsurer	Collateral	Amount of Recoverables	Due date	Status
A	2	3	April 1, 2012	Written off as uncollectible in 2012
B	15	15	June 15, 2012	Disputed via a voicemail to the claims department
C	1	5	October 5, 2012	Unpaid

The primary insurance company has policyholders' surplus of $100,000,000.

a. (1 point)

Based on the information above, identify two required disclosures in this insurer's 2012 Notes to Financial Statements and briefly explain the purpose of each disclosure.

b. (1 point)

Identify and briefly describe two reinsurance transactions that appear in the Notes to Financial Statements and deal exclusively with ceding liabilities related to prior occurrences.

c. (1 point)

Describe the accounting treatment of the reinsurance transactions identified in part b. above in both the Statutory Balance Sheet and Schedule P.

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- Identify financially strong unauthorized reinsurers and modify their provision. Large provision given to reinsurance placed with unauthorized reinsurers when they could indeed be safe.
- Include exhibit of capital structure of reinsurers. This would give insight of reinsurer financial stability and its risk of uncollectibility.
- Add exhibit of any prior collectability issues with reinsurers. This would allow consideration of ongoing risk associated with the provision.
- It should monitor the quality of collateral that reinsurers are holding. Collateral is worthless if it is unlikely to be redeemable.

16. Examiner's Report

Parts a through c represent a fairly straightforward and typical Schedule F question. Part d is much more open-ended, but allows candidates to receive credit if they provide logical and well-supported enhancements. Most candidates were able to provide an answer worth full credit. For those that did not, common errors are listed by part.

a. Common errors on the slow pay test ratio:
   - Calculation errors
   - Included disputes in the calculation
   - Did not apply the table amounts provided to the formula correctly

b. Common errors on provision for reinsurance for non slow-payer reinsurer:
   - Calculation errors
   - Used the slowpay calculation when concluded the reinsurer was not a slow payer in Part A.
   - Did not include disputes
   - Did not apply the table amounts provided to the formula correctly

c. Common errors on provision for reinsurance for unauthorized reinsurer:
   - Included paid amounts in the recoverables amount
   - Used unsecured recoverables to cap the final answer instead of total recoverables
   - Calculation errors
   - Did not include disputes
   - Did not apply the table amounts provided to the formulas correctly

d. Common errors on proposing two enhancements to Schedule F:
   - Didn't propose an enhancement, just pointed out shortcoming
   - Didn't explain how suggestion would improve the capacity to monitor credit risk

17. Sample Answers

a. Any two of the following:
   - Uncollectible reinsurance written off from reinsurer A
     Purpose: To show retrospective fact of how much reinsurance was deemed uncollectible and can be used to compare with provision for reinsurance
   - Unsecured collectibles of 4 million from reinsurer C (> 3% of surplus)
     Purpose: to show potential credit risk of the recoverables

- No disclosure required for reinsurer B because it is not technically considered "in dispute" (needs to be in writing, not by voicemail)
  Purpose: Identify companies that are trying to over-recover from reinsurance

b. Any two of the following:
   - Retroactive reinsurance: Covers liabilities that occurred before the effective date of the reinsurance contract.
   - Run-off agreements: This is aimed to transfer the risks and benefits of a specific line of business which is not marketed by the company any more.
   - Commutations: Insurer accepts payment from reinsurer to release reinsurer from their liability.

c.
   - Retroactive reinsurance
     Balance Sheet:
       -Consideration paid will decrease assets
       -Reserves ceded will be recorded as write-in contra-liabilities
       -Any surplus gain from the transaction will be recorded as special surplus until the actual recoverable amount received exceeds the consideration paid
     Schedule P:
       -Since the loss reserves are unaffected by this transaction, Schedule P is not affected
   - Run-off agreements
     Balance Sheet:
       -Reserves transferred recorded as ceded
       -Consideration paid recorded as paid loss
     Schedule P:
       -Schedule P affected by the change in net incurred loss
   - Commutations
     Balance Sheet:
       -Consideration received will increase assets
       -The reserve assumed back will increase the loss reserves
       -Any gain/loss is recorded as unassigned surplus
     Schedule P:
       -Since the loss reserves are affected, Schedule P will be affected by an increase of reserves for the current year

17. Examiner's Report

All parts of this question were fairly straightforward.

a. Common errors included not providing purposes of the disclosures and listing reinsurer B as a required disclosure for being "in dispute."

b. Common errors included listing but not describing the transaction and listing transactions not dealing with ceding liabilities for prior occurrences. The most common incorrect answers were structured settlements, novations, and financial reinsurance.

c. Common errors included not describing treatment in both the Balance Sheet and Schedule P. Some candidates described treatment in the Income Statement instead of Schedule P.