28. (1.75 points)

a. (0.75 point)

Given the following information for a quota share treaty with a certified reinsurer:

- The reinsurer agrees to reimburse the ceding entity for losses that may be incurred as a result of future insurable events covered under this contract.
- The contract is signed and finalized 60 days after the commencement of the policy period covered by the reinsurance arrangement.

Identify whether the contract should qualify for prospective reinsurance accounting treatment, retroactive reinsurance accounting treatment, or neither, and describe the rationale.

b. (0.75 point)

Given the following information for a catastrophe treaty with an authorized reinsurer:

- The reinsurer agrees to reimburse the ceding entity for losses that may be incurred as a result of future insurable events covered under this contract.
- The contract is signed and finalized prior to the commencement of the policy period covered by the reinsurance arrangement.
- The contract includes a fixed payment schedule that begins 24 months after the end of the policy period covered by the contract with total payments capped at $100,000.
- Deposit premium is $90,000. No reinstatements are permitted.

Identify whether the contract should qualify for prospective reinsurance accounting treatment, retroactive reinsurance accounting treatment, or neither, and describe the rationale.

c. (0.25 point)

For a reinsurance contract that is recorded using deposit accounting, briefly describe how the reinsurer should record the unpaid loss and loss adjustment expenses in the Annual Statement Balance Sheet.

END OF EXAMINATION

- Eliminating Credit Risk
- Ending a relationship with the reinsurer

QUESTION 28	
TOTAL POINT VALUE: 1.75	**LEARNING OBJECTIVE: E**
SAMPLE ANSWERS	

Part a: 0.75 point

Prospective reinsurance accounting

And any two of the following:

- Covers future insurable events
- It has timing and underwriting risk
- Signed within a reasonable timeframe

Part b: 0.75 point

Either of the following:

- Neither
- Deposit accounting

And both of the following:

- Contract's payment schedule violates timing risk
- Contract lacks risk of significant loss

Part c: 0.25 point

Any of the following:

- Write-in liability
- Funds deposited by reinsureds
- As a payable deposit
- Unpaid loss and LAE as liability, not reserves

EXAMINER'S REPORT

Candidates were expected to apply the criteria from NAIC SSAP 62R to determine the accounting treatment for sample reinsurance contracts and demonstrate how reinsurance contracts are accounted for in the balance sheet of the reinsurer.

Part a

Candidates were expected to determine the type of accounting treatment required for a sample contract and provide their rationale.

Common mistakes include:

- Determining the contact should be accounted for using retroactive reinsurance accounting
- Determining the contact should be accounted for using both prospective and retroactive reinsurance accounting.

Part b

Candidates were expected to determine the type of accounting treatment required for a sample contract and provide their rationale.

Common mistakes include:

- Stating the contract's payment schedule violated timing risk required for reinsurance accounting **OR** the contract lacked risk of significant loss, but not both.

Part c

Candidates were expected to demonstrate how reinsurance contracts are accounted for in the balance sheet of the reinsurer.

Common mistakes included:

- Answering from the perspective of the ceding company
- Not providing a specific liability account the amount would be included in
- Stating what would happen to the loss and loss adjustment reserve accounts, but not stating where the reinsurance contract would be included.