

EXAM 6 – UNITED STATES, FALL 2012

26. (1.5 points)

a. (0.75 point)

In the context of a Statement of Actuarial Opinion (SAO), construct a scenario where an actuary would issue a qualified opinion and provide the rationale for the qualification.

b. (0.75 point)

The appointed actuary of an insurance company is in the process of creating an SAO. The company currently holds \$500 million in loss and LAE reserves. However, the appointed actuary's actuarial central estimate of loss and LAE reserves is \$650 million.

Identify and justify the type of opinion the appointed actuary should issue. Include any necessary assumptions.

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26) Sample Answer

Part A

- Purchased a company and that company's reserves our actuary does not agree with; these reserves are material and company lacks sufficient historical data for actuary to properly opine on reserves. Issue a qualified opinion, disclose amount not opining on and reason – due to acquisition and lack of proper historical data.
- Actuary is unable to review a material portion of the insurers book
 - Ex: Insurer write GL policies and has exposure to asbestos pools from before 1980
 - Insurers GL rsvs are 500M range of reasonable 450M-550M
 - Insurer B unable to provide AA w/data relating to asbestos losses
 - Revs for asbestos are 200M
 - Appointed Actuary (AA) would issue a qualified opinion; GL portion is reasonable; unable to opine on asbestos portion.
- Participates in involuntary pool; reserves from this pool significant but actuary not provided any data and therefore unable to review reasonableness of reserves from pool
- If a consulting actuary was hired to opine on the adequacy of insurer's loss & LAE reserves for its property insurance line only which are held at say, \$400M; but company also writes private passenger auto business and reserves held for it are say \$100M. In this case the actuary will issue a qualified opinion that excludes the auto reserves, because it is outside the scope of his assignment.
- An actuary would issue a qualified opinion if, for a material portion of loss reserves, an opinion could not be made, possibly because there was not enough information available, insufficient company data and no relevant appropriate industry data, or if another actuary performed the work and the appointed actuary did not review it.
- If there's a significant portion of reserves that could not be reviewed; one reason is lack of data.

Part B

- Assume that appointed actuary's range is \$600M-700M. company booked of \$500M below low end of range so opinion would be deficient.
- Assume that actuary's range of reasonable est is $\pm 25\%$ of central thus 487.5 (low), 812.5 (high). Since 500 is within the range, disclose a reasonable opinion.
- I would create a deficient opinion. The 500M is way outside any range that the actuary would have come up with based on his central estimate of 650M. $\frac{500}{650} = 0.7692$; so company is only carrying 77% of actuary's central estimate, and I don't believe range of reasonable estimate would drop that low.

Examiner's Report

Part A

Common mistakes were:

- Failing to mention materiality
- Failing to link the scenario (e.g. no available data) to being unable to opine or review the reasonableness of reserves
- Using 'Relying on another actuary's work/opinion' as a scenario which is not appropriate unless part of the reserves are “out of scope” by one actuary and opined on by another.
- Using 'a new company with no data' as a scenario (this is a 'no opinion' SAO)
- Giving vague answers that don't qualify what is discussed (i.e. not mentioning 'reserves')

Part B

Common mistakes were:

- Assuming “No reasonable range” and then comparing the numbers given.
- Candidate wrote down a numerical range, but did not specify whether the booked reserve was inside or outside the range to justify their opinion.
- Comparing booked reserve with the point estimate as justification for a deficient opinion, with no mention of reasonable range
- Using other names for reasonable range (e.g. risk margin, confidence interval, materiality)
- Instead of applying a range around the central estimate, candidates applied a materiality standard to booked reserves