

EXAM 6 – UNITED STATES, FALL 2012

27. (3 points)

Using the following information for three insurance companies (all figures are in thousands of dollars):

	Company A	Company B	Company C
CY 2011 Direct Written Premium	1,500	950	800
CY 2011 Assumed Premium	0	70	30
Projected CY 2012 Direct Written Premium	1,750	850	1,000
Projected CY 2012 Assumed Premium	0	70	20
Year End 2011 Direct Loss & LAE Reserves	1,200	900	850
Year End 2011 Assumed Loss & LAE Reserves	0	50	50
CY 2011 Paid Losses & LAE	600	2,500	450
Projected CY 2012 Paid Losses & LAE	650	750	550
Year End 2011 Surplus	900	2,200	5,000
Projected Year End 2012 Surplus	1,100	2,200	5,500
Estimated cost of Statement of Actuarial Opinion	10	20	20

Determine whether each company would likely be granted an exemption from having to submit a Statement of Actuarial Opinion for Calendar Year 2011 and briefly describe the reason.

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27) Sample Answer

Answer 1

Assuming all companies are not in receivership and have not been granted specific exemption by the commissioner:

- A) Prem = 1,500.00 > 1M and loss 1,200,00 > 1M not small business
Cost = 10 > min (1% surplus = 9, 3% prem = 45)
Company A could claim financial hardship and would be exempt
- B) prem = 1,020,000 > 1M and loss = 950,000 < 1M not small business
Cost = 20 , min (1% surplus = 22, 3% prem = 30.6)
Company B is not exempt
- C) prem 830,000 < 1M and loss = 900,000 < 1M small business
Cost = 20 < min (1% surplus = 50, 3% prem = 24.9)
Company C could be exempt because they are a small company having less than 1M \$ of prem and loss.

Answer 2

Possible exceptions:

Decreasing - assume none in receivership

LOB - assume comm.. has not issued exception

- Small co (<1M res &<1M prem)

- Fin. Hardship (>1% cap &sur or > 3% prem)

A) 1.5M WP & 1.2M reserves – not small

10/900 = 1.1% financial hardship; exemption applies

B) 950+70 = 1.02M WP & 900K reserves – not small

20/2200 = 0.9%<1% & 20/1020 = 1.96% < 3% no financial hardship; no exemption

C) 830K WP & 900K reserves – small company

Exemption applies

Answer 3

A) if $10 > [1\%(900) = 9 \text{ or } 3\%(1500+0) = 45]$ which $10 > 9$ so yes, qualifies for financial hardship

B) if $20 > [1\%(2200 = 22 \text{ or } 3\%(950+70) = 30.6]$ which it's not; it doesn't qualify under financial hardship; not exempt; it doesn't qualify under small business because $(950+70) > 1000$

C) $(800+30) < 1000$ and $(850+50) < 1000$ so company is too small; so it's exempt

Examiner's Report

This was a question that required the candidate to know specific details relating to exemptions from the SAO. To achieve full marks, the candidate must know and list out the numeric criteria, apply them correctly and provide the correct conclusion for each company.

Common wrong answers for this question were:

1. Many candidates switched the percentages for the financial hardship test (incorrectly to 3% of capital and 1% of gross written premium) or used a totally different percentage.
2. Incorrect small company exemption criteria. Many only calculated the direct amounts and did not include the assumed amounts. Others used OR instead of AND between the written premium AND loss & LAE reserves criteria.
3. Used the wrong year. As indicated by the question, the most recent year should be used, 2011, instead of the prospective year, 2012.