

EXAM 6 – UNITED STATES, FALL 2013

24. (5.25 points)

Using only the information below, propose language to be disclosed in the RELEVANT COMMENTS section of an insurance company's 2012 Statement of Actuarial Opinion. Show all calculations that support the required disclosures. All figures are in millions of dollars.

	2012	2011	2010
Gross Reserves for Unpaid Losses and Loss Adjustment Expenses	350	200	100
Net Reserves for Unpaid Losses and Loss Adjustment Expenses	55	49	50
Development in estimated losses and loss expenses incurred prior to current year	6	(1)	-
Development in estimated losses and loss expenses incurred two years before the current year and prior year	5	-	-
Surplus	35	29	28
Earned Premium	90	85	80
Authorized Control Level	15	-	-
Lower End of Actuary's Range of Reasonable Net Reserves for Unpaid Losses and Loss Adjustment Expenses	47	-	-
Upper End of Actuary's Range of Reasonable Net Reserves for Unpaid Losses and Loss Adjustment Expenses	63	-	-

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didn't include the link to solvency assessment or any of the uses or objectives of ORSA or the minimum requirements of an ORSA.

24. Sample Answers

Materiality Standard:

A \$5m drop in surplus (=\$35m) will make the company fall into the Company Action Level (=\$30m)

OR

5% of surplus (1.75M)

OR

10% of surplus (3.5M)

OR

25% of surplus (7M)

Risk of Material Adverse Deviation:

The actuary's range of reasonable reserves is 47-63. The current booked reserve is 55. Since $55+5 = 60$ is still within the actuary's range of reasonable reserves, there is a risk of material adverse deviation.

OR

Based on this standard, there exists a risk of material adverse deviation. Risks include Asbestos and environmental exposures.

IRIS Ratios:

IRIS 11: $6/29 = .207$, which is greater than the 20% threshold. This is an unusual value

IRIS 12: $5/28 = .179$, which is less than the 20% threshold. This value is in the usual range.

IRIS 13: Average of $(49+6)/85$ and $(50+5)/80$ equals 0.66725.

$0.66725 \times 90 = 60.05$

$60.05 - 55 = 5.05$

$5.05/35 = .144$ This is less than the 25% threshold. This value is in the usual range.

Reinsurance collectability:

Reinsurance collectability may be an issue. The company is ceding a significant portion of its total reserves.

24. Examiner's Report

This is a very open-ended question where candidates needed to evaluate the information provided in the table, discuss the conclusions that could be drawn, and provide the required disclosures for the SAO.

Materiality Standard:

Most candidates correctly selected a reasonable materiality standard. A few candidates lost some credit by suggesting a high standard of \$20M.

Risk of Material Adverse Deviation:

Most candidates answered correctly. Some candidates failed to receive full credit by stating that there was risk without any explanation.

IRIS Ratios:

The question required the candidates to calculate the IRIS ratio, compare to a threshold, then explain whether the ratio was usual or unusual. Most candidates calculated IRIS 11, 12 and 13 correctly and included the correct threshold and verbiage. Many only included verbiage for IRIS 11 (unusual) and excluded verbiage for 12 (usual). Others included either the threshold or the verbiage but not both. Some left out the IRIS ratios entirely.

Reinsurance collectability:

Most candidates failed to discuss reinsurance collectability.

25. Sample Answers

a. Scope

b.

- 1) Federal regulatory officials → State regulatory officials
- 2) November 30, 2012 → December 31, 2012
- 3) Schedule P, Part 2 and 3 → Schedule P, Part 1
- 4) Zeta Insurance Company → Need to specify the person who provided the data. (Full credit still given for answers that did not specify that it must be an officer of the company)

25. Examiner's Report

Part a is straightforward. Part b required candidates to apply basic concepts from the SAO to a specific example.

a. Credit was given for answers that identified that any portion of the excerpt was in the Scope section. Common incorrect answers included:

- Actuarial Report
- Introduction
- Relevant Comments
- Opinion
- Summary Section
- Actuarial Opinion Summary
- Identification

b. Credit was given for answers that correctly identified the solution while only implying the error. There were two types of common errors:

1. identification of something that wasn't an error
2. providing an incorrect solution to a correctly stated error

1. Common incorrectly identified errors:

- Opining actuary not identified
- Use of "the Company" in the first paragraph not specific enough
- "Reserves listed in Exhibit A", in first paragraph not specific enough (e.g. Loss and LAE)
- In paragraph one, Exhibit B should replace or be included in addition to Exhibit A
- In the second paragraph, the "tests of the calculations" were not named
- In the second paragraph, the "tests of the calculations" should state "In accordance with the laws and regulations of state of domicile"
- Exhibit A is not in the Annual Statement