

EXAM 6 – UNITED STATES, FALL 2013

25. (2.25 points)

The following was included in the 2012 Statement of Actuarial Opinion for Zeta Insurance Company:

“I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with federal regulatory officials, as of December 31, 2012, and reviewed information provided to me through November 30, 2012.

“I evaluated the data provided by Zeta Insurance Company for reasonableness and consistency. I also reconciled that data to Schedule P – Parts 2 and 3 of the company’s current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.”

a. (0.25 point)

Identify the section of the opinion that contains the above paragraphs.

b. (2 points)

Identify and correct four errors in the above paragraphs.

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

- Statement of Opinion on the reserves is missing
 - Significant changes in assumption/methods used was not listed
 - No reference to discussion with management
 - Did not state that the assumptions/methods are consistent with the accepted practices in the actuarial community
 - Did not state that they reviewed Schedule F for any possible reinsurance uncollectability issues
 - Should state “booked in the financial statements” instead of “listed in Exhibit A”
 - “Reasonableness and accuracy” should be used in place of “consistency” in the second paragraph
 - Should mention whether the amount in Exhibit A meets the requirements of the insurance laws of domiciled state.
 - Should comment on the result of the data reconciliation
2. Common incorrect solutions:
- Identified that filing with the federal regulator officials was incorrect, but:
 - Implied that the federal filing should be in accordance with the laws of the state
 - Stated that it should be filed with the NAIC
 - Identified that the review date of November 30, 2012 was incorrect, but:
 - Stated the item was unnecessary, should be removed, or moved to another section of the Actuarial Opinion
 - Changed both review date and the evaluation date, resulting in evaluation date that was after the new review date
 - Identified that the data should not be reconciled with Schedule P, Part 2 and 3, but:
 - Stated that it should be reconciled to all of Schedule P, the Income statement, current or previous year’s annual statement
 - Specifically listed only incorrect portions of Schedule P
 - Stated the item was unnecessary, should be removed, or moved to another section of the Actuarial Opinion
 - Identified that it was wrong to reference Zeta Insurance Company in the first sentence of the second paragraph, but:
 - Stated the item was unnecessary, should be removed, or moved to another section of the Actuarial Opinion Remove the section (or not need)
 - Replaced Zeta Insurance Company with something other than a responsible individual for the data (e.g. auditor, IT department)

26. Sample Answers

- a. The appointed actuary is required to opine on:
- Direct & Assumed Loss Reserves
 - Direct & Assumed LAE Reserves
 - Net Loss Reserves
 - Net LAE Reserves

$$\text{D\&A Loss Reserves} = \text{columns } 13+15 = 4,480 + 3,360 = 7,840$$

$$\text{D\&A LAE Reserves} = \text{columns } 17+19+21 = 1,120 + 448 + 224 = 1,792$$

$$\text{Net Loss Reserves} = \text{D\&A} - \text{ceded} = 7,840 - \text{columns } 14 \ \& \ 16 = 7,840 - 2,240 - 1,680 = 3,920$$

$$\text{Net LAE Reserves} = \text{D\&A} - \text{ceded} = 1,792 - \text{columns } 18, 20, 22 = 1,792 - 560 - 224 - 0 = 1,008$$