

EXAM 6 – UNITED STATES, FALL 2013

26. (3 points)

Schedule P – Part 1 – Summary (all figures are in thousands of dollars):

	1	2	3	4	5	6	7	8	9	10
	Premiums Earned			Loss and Loss Expense Payments						
	Gross	Ceded	Net	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		Salvage and Subrogation Received
				Gross	Ceded	Gross	Ceded	Gross	Ceded	
Prior	XXX	XXX	XXX	10	5	10	5	0	0	0
2003	600	300	300	200	100	100	50	25	0	0
2004	800	400	400	360	180	180	90	45	0	0
2005	1,100	500	600	400	200	200	100	50	0	0
2006	1,600	800	800	600	300	300	150	75	0	0
2007	2,000	1,000	1,000	600	300	300	150	75	0	0
2008	2,200	1,100	1,100	600	300	300	150	75	0	0
2009	2,400	1,000	1,400	500	250	250	125	63	0	0
2010	2,800	1,400	1,400	400	200	200	100	50	0	0
2011	3,000	1,400	1,600	300	150	150	75	38	0	0
2012	3,200	1,600	1,600	100	50	50	25	13	0	0
Totals	19,700	9,500	10,200	4,070	2,035	2,040	1,020	509	0	0

	13	14	15	16	17	18	19	20	21	22
	Losses Unpaid				DCC Unpaid				AO Unpaid	
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR			
	Gross	Ceded	Gross	Ceded	Gross	Ceded	Gross	Ceded	Gross	Ceded
Prior	100	50	75	37	25	12	10	5	5	0
2003	120	60	90	45	30	15	12	6	6	0
2004	160	80	120	60	40	20	16	8	8	0
2005	200	100	150	75	50	25	20	10	10	0
2006	300	150	225	112	75	38	30	15	15	0
2007	400	200	300	150	100	50	40	20	20	0
2008	400	200	300	150	100	50	40	20	20	0
2009	500	250	375	188	125	62	50	25	25	0
2010	600	300	450	225	150	75	60	30	30	0
2011	800	400	600	300	200	100	80	40	40	0
2012	900	450	675	338	225	113	90	45	45	0
Totals	4,480	2,240	3,360	1,680	1,120	560	448	224	224	0

a. (2 points)

Identify the name and calculate each of the values that an Appointed Actuary is required to include in Exhibit A of the 2012 Statement of Actuarial Opinion. Assume that there are no unearned premium reserves for long-duration contracts or reserves related to retroactive reinsurance.

b. (1 point)

Identify whether each value calculated in part a. above appears elsewhere in the Annual Statement, and if so, identify one location.

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- 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

D&A Loss Reserves = columns 13+15 = 4,480 + 3,360 = 7,840

D&A LAE Reserves = columns 17+19+21 = 1,120 + 448 + 224 = 1,792

Net Loss Reserves = D&A – ceded = 7,840 – columns 14 & 16 = 7,840 – 2,240 – 1,680 = 3,920

Net LAE Reserves = D&A – ceded = 1,792 – columns 18, 20, 22 = 1,792 – 560 – 224 – 0 = 1,008

Alternative answers for part a:

- For Direct and Assumed, also accepted Gross Loss Reserves and Gross LAE Reserves
- For Net, also accepted just Loss Reserves and LAE Reserves – Exhibit A of Actuarial Opinion does not specifically include the word Net
- Also accepted word Unpaid in lieu of Reserves

b.

D&A Loss Reserves – No, they do not appear elsewhere in the Annual Statement

D&A LAE Reserves – No, they do not appear elsewhere in the Annual Statement

Net Loss Reserves – Yes they do appear elsewhere – accepted any one of the following:

- Page 3, Liabilities
- Five Year Historical Data Exhibit
- Underwriting and Investment Exhibit

Net LAE Reserves – Yes they do appear elsewhere – accepted any one of the following:

- Page 3, Liabilities
- Five Year Historical Data Exhibit
- Underwriting and Investment Exhibit

Alternative answers for part b:

Answers such as Balance Sheet, simply Page 3 were accepted in lieu of Page 3, Liabilities

26. Examiner's Report

a. This part required candidates to demonstrate their knowledge of the SAO by evaluating the Schedule P information provided. Most candidates did very well on this part. Three common errors were:

- Listed DCC Reserves rather than LAE or showed DCC and AO as separate items to be shown on Exhibit A
- Listed LAE Reserves but then only included DCC in the calculation portion of those reserves
- Combined the Loss and LAE amounts into a single entry (eg. Net Loss and LAE instead of Net Loss and Net LAE as two separate values on Exhibit A)

b. This part required candidates to recall items within the Annual Statement.

On a D&A basis, common errors were:

- Listed IEE or AOS as alternative locations – these are not part of the Annual Statement.
- Listed Schedule P as an alternative location – Schedule P does not show the D&A Loss and LAE Reserves other than in Part 1 shown in the question. (Some candidates mentioned they could be calculated by subtracting/adding different parts of Schedule P but that is not the same as appearing in the Annual Statement.)
- Listed Schedule F as an alternative location – Schedule F, Part 9 (formerly Part 8), which restates the balance sheet from a Net to Gross basis, shows Gross Loss and LAE Reserves in Total/Combined.

On a Net basis, common errors were:

- Net Loss and LAE Reserves shown combined or mentioned that they are combined on Page 3 or other exhibit, as opposed to separately

- Listed IEE or AOS as alternative locations. These are not part of the Annual Statement.

There were also numerous candidates who listed correct locations for the net reserves, but did not comment on D&A at all. The question clearly said to “Identify whether each value” appears elsewhere “and if so identify one location”.

27. Sample Answers

- a. “Qualified Actuary” is a person who is either:
 1. A member in good standing of the CAS, or
 2. A member in good standing of the American Academy of Actuaries (AAA) who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the AAA.
- b. Refers to contracts, excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts, that fulfill both of the following conditions:
 1. The contracted term is greater than or equal to thirteen months
 2. The insurer can neither cancel nor increase the premium during the contract term
- c. Financial hardship is presumed to exist if the projected reasonable cost of the Actuarial Opinion, exceeds the lesser of:
 1. 1% of the insurer’s latest quarterly reported statutory surplus
 2. 3% of the insurer’s direct plus assumed premiums written during the calendar year.
- d. The actuary should include an explanatory paragraph in the statement of actuarial opinion. The explanatory paragraph should include the following:
 1. The amount of adverse deviation that the actuary judges to be material with respect to the statement of actuarial opinion
 2. A description of the major factors or particular conditions underlying risks and uncertainties that the actuary believes could result in material adverse deviation.

27. Examiner’s Report

All parts of this question required straightforward recall from COPLFR.

- a. Common errors included:
 - It is not sufficient to simply mention that you be a member of the CAS, “Good standing” is key.
 - Saying you need to be an FCAS is wrong, despite mentioning one needs to be in good standing.
 - Not enough to mention in good standing with the AAA, should also mention something relevant to being qualified by the AAA to sign opinions.
- b.
 - Many candidates missed the need to mention excluding financial guaranty contracts, mortgage guarantee contracts and surety contracts, etc.
- c.